
THE SOUTHLAND CORPORATION



7-Eleven is continually changing to satisfy convenience customers through a reliable selection of quality products and services — like fresh food delivered daily; fair prices; speedy transactions; and clean, safe and friendly stores.



1994 ANNUAL REPORT

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7-Eleven Around the World	Inside Back Cover

The convenience retailing industry began in 1927 when a Southland Ice Company employee met the needs of his customers by selling bread, milk and eggs from the steps of his ice dock. The name 7-Eleven originated in 1946 when the stores were open from 7 a.m. until 11 p.m. Today, approximately 95 percent of all 7-Eleven stores in the United States and Canada are open 24 hours a day. With more than 14,600 convenience stores worldwide (see inside back cover for listing of stores by country and by state), 7-Eleven is the premier name in the convenience retailing industry and the largest operator, franchisor and licensor of convenience stores in the world.

IYG Holding Company (IYG) owns 64 percent of Southland's common stock. IYG is 51-percent owned by Ito-Yokado Co., Ltd., the fifth-largest retailer in the world, and 49-percent owned by Seven-Eleven Japan Co., Ltd., the longtime 7-Eleven licensee for Japan.

Southland's common stock is traded on the NASDAQ Small-Cap Market under the ticker symbol SLCMC.

FINANCIAL HIGHLIGHTS
 THE SOUTHLAND CORPORATION AND SUBSIDIARIES

(Dollars in Millions, Except Per-Share Amounts)	1994	1993	1992	1991	1990
FOR THE YEAR:					
Net Sales	\$ 6,684.5	\$ 6,744.3	\$ 7,425.8	\$ 8,009.5	\$ 8,347.7
Other Income	75.3	69.9	73.6	73.8	60.1
Total Revenues	6,759.8	6,814.2	7,499.4	8,083.3	8,407.8
Net Earnings (Loss) ⁽¹⁾⁽²⁾	92.0	71.2	(131.4)	82.5	(276.6)
Net Earnings (Loss) Per Common Share ⁽¹⁾⁽²⁾	0.22	0.17	(0.32)	0.24	(13.93)
Capital Expenditures	171.6	195.1	88.6	69.9	39.6
Interest Expense ⁽²⁾	108.6	94.6	123.6	189.3	459.5
AT YEAR-END:					
Common Shares Outstanding (in thousands)	409,923	409,923	410,022	410,022	20,481
Number of Stores Operated or Franchised by Southland in U.S. and Canada	5,630	5,796	6,167	6,491	6,705
Number of Stores Operated by Licensees or Affiliates in U.S. and Overseas	9,067	8,360	7,593	6,995	6,436
Shareholders of Record ⁽³⁾	3,060	3,130	3,373	3,314	22
Number of Employees (Full-time and Part-time)	30,417	32,406	35,646	42,616	45,665
Shareholders' Equity (Deficit) ⁽²⁾	\$(1,157.2)	\$(1,248.4)	\$(1,318.8)	\$(1,210.3)	\$(1,998.6)
Book Value per Common Share ⁽²⁾	(2.82)	(3.05)	(3.22)	(2.95)	(97.58)
Total Assets	2,000.6	1,990.0	2,039.7	2,607.7	2,813.6

(1) Net earnings (loss) for the years presented

include the following:

	1994	1993	1992	1991	1990
Loss on non-store assets sold ⁽⁴⁾	—	\$ (10.8)	\$ (45.0)	—	\$ (41.0)
Gain on debt restructuring	—	—	—	\$ 156.8	—
Gain on debt redemption	—	99.0	—	—	—
Tax benefit from utilization of book net operating loss carryforwards	—	—	—	—	52.0
Tax benefit from recognition of net deferred tax assets	\$ 30.0	—	—	—	—
Cumulative effect of accounting change for postretirement benefits	—	—	—	—	(27.2)
Cumulative effect of accounting change for postemployment benefits	—	(16.5)	—	—	—
Severance and related costs	(7.4)	(7.2)	(17.5)	—	—
Loss on closings and dispositions of properties ⁽⁴⁾	(3.7)	(48.2)	(44.3)	(14.4)	(14.4)

(2) The Company is required to prepare its financial statements since completing the Restructuring in accordance with Statement of Financial Accounting Standards No. 15 (SFAS No. 15). Under SFAS No. 15, the liability for the Company's restructured public debt as recorded on the balance sheet includes all future undiscounted cash payments, both principal and interest. For that reason, no interest expense will be recognized over the life of these securities, although the interest payments are tax deductible. The liability is reduced by the amount of the interest payments at the time they are disbursed. Those cash interest payments, which are paid semiannually, totaled \$97 million during 1991, \$65 million in 1992, \$56 million in 1993 and \$35 million in 1994. Cash interest payments will total \$35 million annually for 1995 and 1996, after which payments will decline because of bond maturations.

(3) The common stock began trading publicly on March 5, 1991, when the Company emerged from a voluntary bankruptcy reorganization.

(4) Includes completed closings and dispositions, as well as those expected in the near future.

Nearly four years ago, we rededicated 7-Eleven to serving convenience-oriented customers better than anyone else.

At the time, customers' opinions of convenience stores were not positive, and 7-Eleven was no exception. So in 1991 we launched an ambitious plan to change their minds. With the extraordinary support and commitment of our majority owner, we began reinventing 7-Eleven to deliver what our customers said they wanted: speedy transactions, a reliable selection of quality products and services at fair prices, and a clean, safe and friendly environment in which to shop.

We believed that a concentrated, store-by-store focus on exceeding customers' expectations would produce profitable growth for 7-Eleven, and our results show we're on the right track.

In 1994 customers rewarded 7-Eleven with its first full year of positive same-store merchandise sales growth since 1988. In addition, last year's fourth quarter was our eighth consecutive quarter of higher merchandise gross profits per store.

We're delighted with this trend, because it shows the success of new, customer-focused strategies working together to communicate to customers how 7-Eleven today is a different kind of store. It also rewards the effort, creativity and countless hours that 7-Eleven employees, franchisees and licensees are investing to deliver the promise of the 'new 7-Eleven' to our customers.

Let's review the highlights of exactly what is changing and what it means to 7-Eleven shoppers. The most visible change is our ongoing remodeling program, under which we upgraded 1,201 more 7-Eleven stores in 1994. We also revamped the entire process last year to make it more efficient, focusing on changes that are most important to our customers and virtually eliminating the need to close the stores while remodeling is under way. As a result, approximately half our stores nationwide now greet customers with the brighter, better-organized look of the 'new 7-Eleven.' Average remodel costs have been reduced by nearly 50 percent, post-remodel sales are rebounding much faster, and we're on schedule to finish remodeling our existing store base in 1996. Strengthening 7-Eleven's presence is among our most important long-term goals. Therefore, planning is already under way for new-store openings as the existing-store remodeling process nears completion, and by 1997, we expect new store openings to outpace store closures.

Significant lighting upgrades we're making both inside and outside the stores are among the changes customers seem to like best. By the end of 1994, we had also installed 2,250 new security systems in 7-Eleven stores: 24-hour closed-circuit video cameras, with monitoring capabilities and alarm-activating devices. 7-Eleven has long been a leader in addressing crime-prevention issues in our stores, and we're pleased at the positive feedback we're getting from customers, store personnel, law enforcement officials and the media on these latest enhancements.

Remodeling is also improving the convenience and customer appeal of retail gasoline, which is available at one-third of 7-Eleven stores and contributed substantially to our 1994

results. Gross profit from this important product was up, benefiting from customer-friendly features like well-lit canopies, high-quality CITGO-brand fuel, upgraded equipment and a variety of easy payment options including most major credit cards and automated, pay-at-the-pump capability. In addition, our aggressive remodeling program has put us well ahead of federal requirements in upgrading underground storage facilities to meet stricter 1998 standards.

Inside 7-Eleven stores, customers are finding a more reliable selection of quality products and services they want, largely because we've prioritized **ordering** as the most important task in our stores. In the past, we stocked what we and our suppliers wanted to sell. Today, 7-Eleven stores are stocking more of what customers want to buy, weighing each item's sales potential in determining whether to assign it more shelf space or delete it from inventory. Ordering accurately is critical, and it's only part of the new, customer-focused principles that now drive every aspect of 7-Eleven's business. In 1994 we trained over 3,400 employees and franchisees around the country on how to apply those principles — and that everyone has a role in managing our business item by item, using a process that helps us remove slow-moving products, expand shelf space for fast-moving merchandise and add new, high-potential items so we're in stock with the right amount of what customers want to buy.

Within two years, 7-Eleven store operators will be able to order even more accurately using a proprietary retail automation system we're developing through a strategic alliance with Electronic Data Systems, AT&T Global Information Solutions, Canmax Retail Systems and other well-known names in the information-systems business. This system will also provide our suppliers and distributors with information to make better decisions and drive down costs, which will translate into better service and better value for 7-Eleven customers. The first phase of this proprietary system automates accounting and other store-level tasks, providing savings today that will help fund future phases of the system's development. It was installed in nearly half our stores during 1994, with the remainder scheduled for 1995. Meanwhile, development is already under way on the second phase, which will automate much of the stores' ordering function.

A big change welcomed by customers at over 700 stores in 1994 was fresh food, dairy products, produce and other items **delivered daily** — thanks to facilities built and operated exclusively for 7-Eleven by third-party experts in quality food preparation and distribution. Because of innovative strategic alliances like these, stores can now offer customers fresh sandwiches, salads and desserts made only hours before at a 7-Eleven "Deli Central" fresh-food commissary; fresh-baked pastries from a "World Ovens" bakery; dairy products and packaged bakery items just off the production lines, and a variety of fresh produce — all delivered daily through a 'combined distribution center.'

People today are working longer hours. They're buying more food 'on the go' for take-home eating, or to eat at work or in the car. They have less time to plan meals. Their tastes and product preferences reflect many diverse cultures and neighborhoods. And when they shop for ready-to-eat food, they want freshness, selection, quick service and good value. Most of all, they want **quality**.

So as customers' lives and needs are changing, 7-Eleven is too, and in 1995 we expect to introduce daily deliveries of fresh food to many more 7-Eleven markets.

Combined distribution centers enable stores to get daily deliveries of fresh food while reducing costs for both 7-Eleven and the suppliers who use them. A good example is the first center in Dallas, Texas, which, after less than a year in operation, has reduced 7-Eleven product costs substantially. More importantly, stores' in-stock conditions are better, because store operators are ordering — and receiving — precisely what their customers want. This is the perfect three-way win for everyone: daily delivery means customers are getting the freshest possible products, and sales are growing — a positive for both suppliers and 7-Eleven. In addition, together with McLane Company, Inc., we continued progress begun in 1993 to drive costs out of the distribution system for warehouse-grocery items, which McLane makes available to 7-Eleven stores nationwide.

Working with strategic partners allows us to develop localized fresh-food menus that appeal to our customers, instead of being restricted to a single fast-food format. By cutting across traditional lines between retailers and suppliers, combining our teams and using the best of each other's expertise, together we're creating new ways to offer 7-Eleven customers an appealing selection of the freshest ready-to-eat foods, and at an excellent value.

A good example is the "World Ovens" selection of outstanding fresh-bakery products developed exclusively for 7-Eleven customers in 1994. Our 24-hour business attracts customers with 24-hour appetites. Working within 7-Eleven's business system as a strategic partner, Pillsbury assisted us in developing bakery products so high in quality we can sell them all day long, not just in the morning. The enthusiastic customer response we've seen so far makes "World Ovens" one of the most immediate sales and profit opportunities in our fresh-food mix.

Another important change at 7-Eleven is everyday fair pricing — something customers have asked for and that we believe will continue to be a priority. We started this process in 1992 by eliminating both the high and low extremes of past pricing — migrating away from sporadic deep discounting, but also lowering prices on other items to provide consistent, competitive prices throughout the store. To do this profitably, we're working with 7-Eleven suppliers on creative ways to reduce product costs.

We also continued revising our business processes and reducing overhead expenses in 1994, to further improve 7-Eleven's customer focus and achieve the cost efficiency we need to compete effectively for customer dollars. As a result, selling, general and administrative expenses were down significantly, both in total and as a percent of sales in 1994. In addition, communication has improved dramatically throughout the company, partly by expanding our use of videoteleconferencing companywide. With equipment in 48 locations, the largest corporate videoconferencing network in the country, we now communicate simultaneously and regularly with people running 7-Eleven operations from coast to coast. This system provides the communication speed and agility we need to exchange information and accelerate decisions that

affect 7-Eleven stores and their customers, a critical edge in today's fast-changing business environment.

Another way we lowered costs in 1994 was by refinancing in December the remaining debt under our 1987 bank credit agreement at attractive rates that will save \$6.7 million annually in interest costs. Our new agreement gives us more financial flexibility and the capital we need to continue reinvesting in customer-focused changes at 7-Eleven. We are especially grateful for the continuing strong support of our majority owner and the vote of confidence by our new bank group that enabled us to take this important step.

At 7-Eleven we also believe "doing business" means more than selling merchandise 24 hours a day. It means being involved and doing our part as a good neighbor to help better the community in whatever way we can, such as active involvement in national and local organizations for minorities and women. It also means making tough choices, because needs are great in every community. So, we've begun targeting the majority of our giving to programs, projects and institutions that promote education (particularly literacy) and multi-cultural understanding (particularly those that serve ethnic and inner-city constituents). In 1994, 7-Eleven contributed over \$3.5 million to such efforts around the country. As part of this focus, and in line with our goal to offer customers the freshest products possible, "Deli Central" sandwiches not sold the day they are delivered to 7-Eleven stores are now being donated to agencies that serve the hungry.

We promised significant progress for 7-Eleven in 1994, and through the efforts of 7-Eleven people across the country, as well as the support and participation of our majority owner, strategic partners and other stakeholders, we delivered. Much remains to be done to implement all the changes we envision, and we expect the customer benefits, as well as the impact on our operating results, to accelerate as progress continues.

Meanwhile, the future for convenience retailing is bright worldwide. In the U.S., 7-Eleven is located in some of the best growth areas, and we intend to strengthen our strong market presence to help optimize the value of our distribution systems, advertising, fresh-food programs and other customer-focused initiatives. Similar possibilities exist over the longer term to extend merchandising and supplier alliances globally through our majority owner and international 7-Eleven licensees. Through everything we do, our singular focus is to shape a 'new 7-Eleven' that exceeds the expectations of customers today, and more importantly, leads the kinds of changes customers will expect tomorrow.

Sincerely,



Clark J. Matthews, II
President and Chief Executive Officer

March 22, 1995

At the close of 1994, 14,608 7-Eleven stores were operating around the world. Of these, Southland had 5,541 7-Eleven stores in the U.S. and Canada, as well as 89 other convenience stores. Franchisees operate approximately half of those stores and their sales are included in the company's 1994 total revenues of \$6.8 billion. Area licensees operate 694 U.S. stores, as well as 8,373 stores in 18 other countries and two U.S. territories; royalties from these stores are included in Southland's other income.

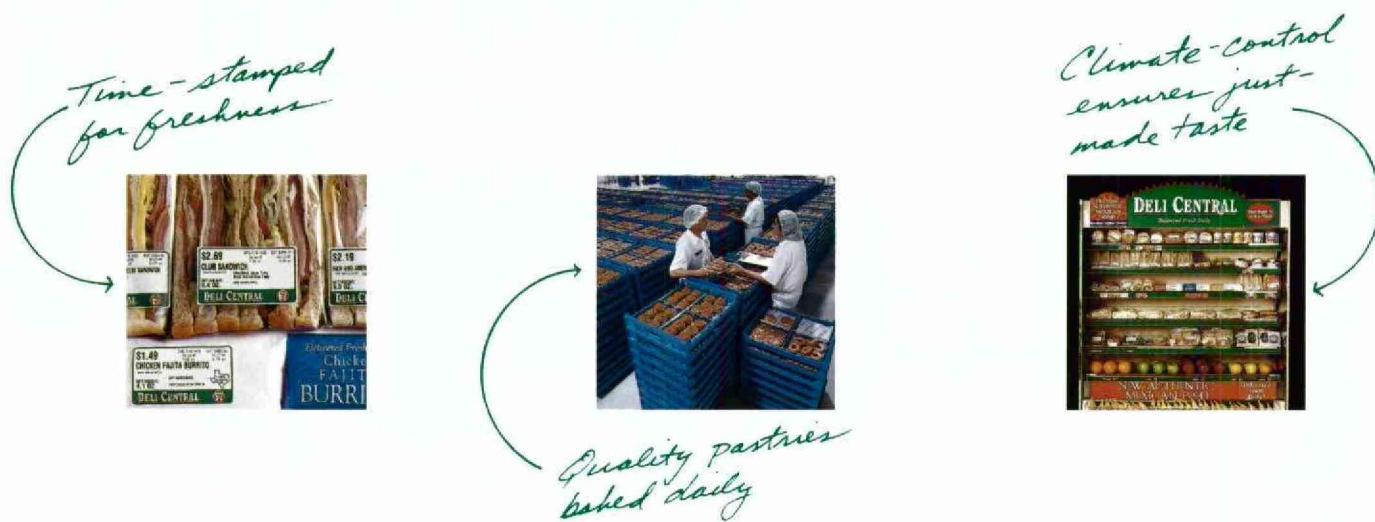
Earnings before taxes from 7-Eleven operations improved \$76.1 million in 1994. Those results show steady progress in 7-Eleven's commitment to serve convenience-oriented customers better than anyone else, helping them find what they want quickly, at a competitive price, and assuring them of a speedy transaction in a clean, safe and friendly shopping environment.

Remodeled Stores Highlight Fresh Food.

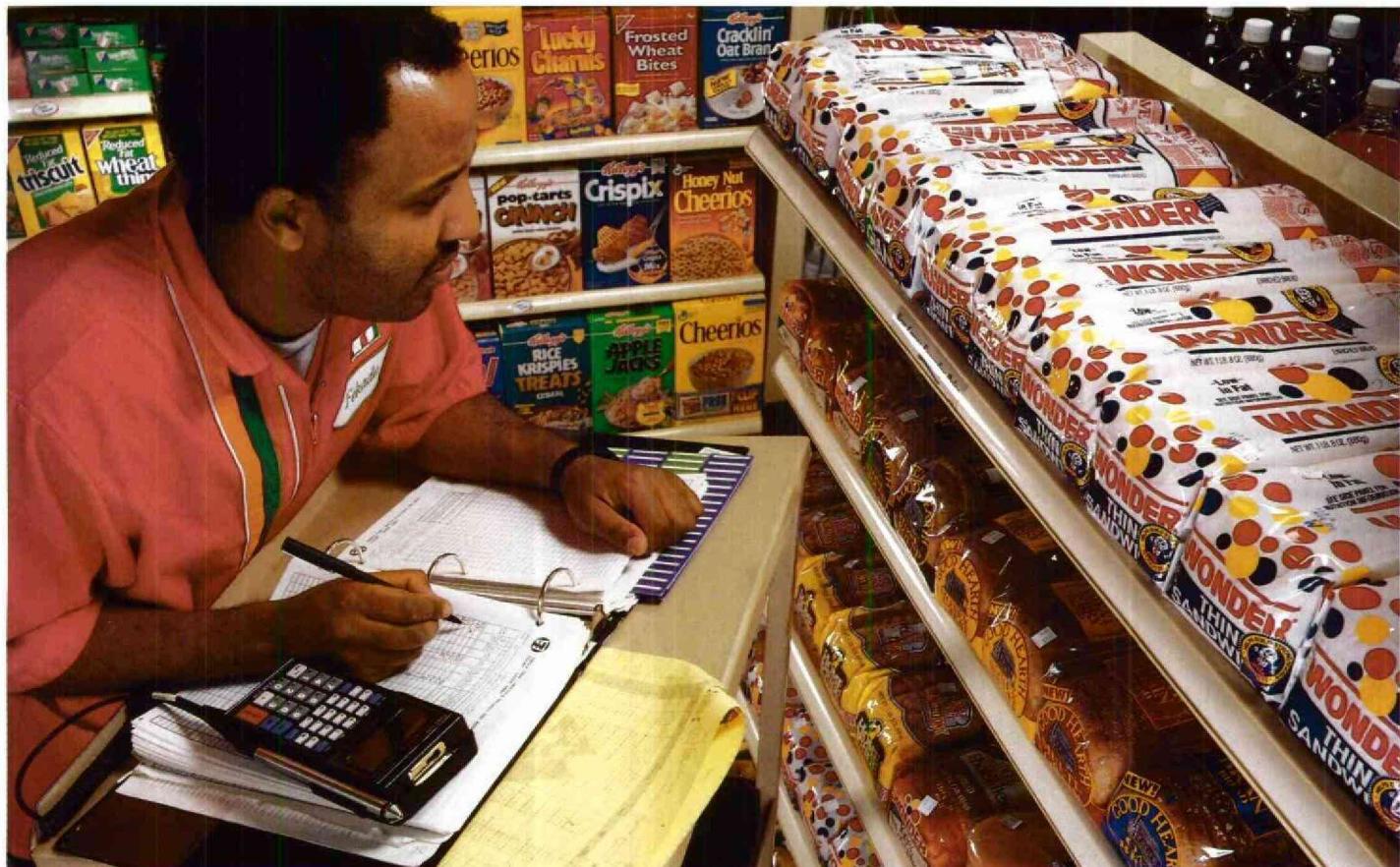
Remodeling to achieve the 'new 7-Eleven' look in stores nationwide continued at an aggressive pace in 1994, with a total of 2,700 stores completed by year-end and the entire store base scheduled to be finished by the end of 1996. Inside the remodeled stores, customers immediately notice brighter lighting, wider aisles, lower shelves, new colors, and store layouts and signs that make it easier to find what they're looking for. In 1995, more and more remodeled stores will also feature an expanded selection of on-the-go food and beverages at 7-Eleven as the company's fresh-food rollout accelerates.

Progress toward making 7-Eleven the fresh-food store for convenience-oriented customers began in earnest in 1994. In strategic alliance with Southland, companies that specialize in fresh-food preparation and distribution began building and operating "Deli Central" fresh-food commissaries, "World Ovens" bakeries and combined distribution centers — exclusively for 7-Eleven stores.

As a result, by year-end 1994, 700 7-Eleven stores in Texas and the Northeast were offering customers a broad new selection of fresh food including items like fresh-made pita sandwiches loaded with turkey, crisp chef salads, single-serving veggie trays, sinful-looking desserts and fresh-baked pastries made only hours ago in nearby "Deli Central" fresh-food commissaries and



9:00 a.m. — Each morning, store operators place a daily order for fresh-sensitive items like "Deli Central" foods, "World Ovens" pastries, dairy products, bread items, produce and packaged bakery items.



"World Ovens" bakeries. Under the fresh-food program, those items, along with fresh produce, fresh dairy products, milk "so fresh it moos," just-baked bread and other packaged bakery items, are being delivered daily to each store before dawn by a combined distribution center.

"Deli Central" Fresh-Food Commissaries Offer Variety.

7-Eleven's fresh-food commissaries are designed to produce a wide range of freshly prepared food, which will be important for future growth. In 1994, stores could choose from up to 37 different varieties of fresh-made sandwiches, salads and desserts, all labeled with the exact time they were made, and most with shelf lives of only one day. Forecasting what their particular customers will want and accurately ordering the right quantities of food that fresh is a new challenge for 7-Eleven store operators and their staffs. Ordering skills will become even more important in

8:00 p.m. — Preparation of daily fresh-made foods — ordered by 7-Eleven stores — is well underway at a "Deli Central" commissary.



1995 as fresh-food commissaries are rolled out to more 7-Eleven markets and existing commissaries introduce more new items to satisfy customer demand, including additional sandwiches, salads and desserts, and items like pizza, ethnic foods and regional favorites.

"World Ovens" Fresh-Baked Pastries Debut.

Another product line introduced last year that customers will find in more 7-Eleven stores in 1995 is "World Ovens" fresh pastry — featuring new, higher-quality baked goods that stay fresh all day long, not just a few hours in the morning. To develop its "World Ovens" concept, 7-Eleven selected Pillsbury to be its strategic partner in creating a selection of better-tasting, fresher pastries especially for 7-Eleven customers. Enticing customers to try a delicious, fresh-baked pastry along with a cup of 7-Eleven's famous fresh-ground coffee is a great way to introduce them

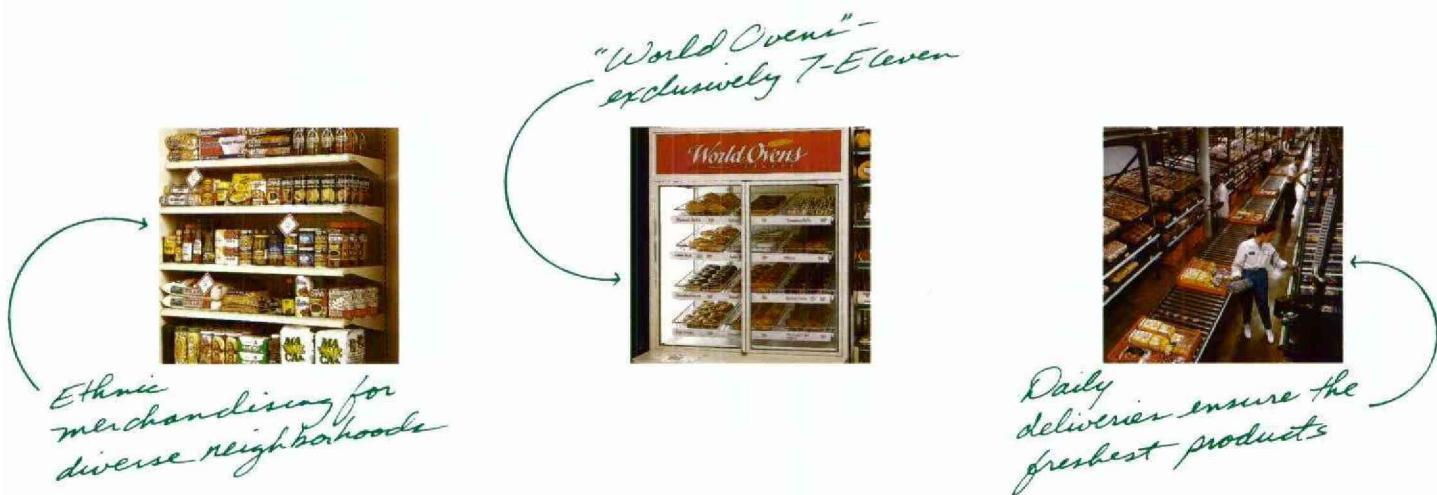
to the new selection of fresh foods at 7-Eleven. And store operators trained to order what their customers want are seeing significant sales increases so quickly that "World Ovens" appears to offer some of the most immediate sales and profit potential in 7-Eleven's entire fresh-food mix.

Combined Distribution Centers (CDCs) Deliver Daily.

CDCs operate by 'combining' products ordered by 7-Eleven store staff from fresh-food commissaries, bakeries and multiple other vendors, for daily delivery to each store before sunrise, when customers are least inconvenienced. Two aspects of CDC operation are important to 7-Eleven's success. First, CDCs reduce product cost by saving vendors the cost of a door-to-door ordering and delivery operation, one of the most expensive aspects of servicing convenience stores. The delivered cost of products to each 7-Eleven store is significantly less through the CDC than other direct-store-door methods, based on 1994 results at the Dallas, Texas CDC, with less than a year of operation.

The second major advantage of CDC operation is that 7-Eleven store operators — not vendors' route drivers — are ordering, and more importantly **receiving** — precisely what their customers want. A full shelf does not mean a store is 'in stock' if it's not carrying what customers want. In Dallas, for example, dairy sales are up substantially since store managers began stocking their own vaults, and out-of-stocks on bread have been cut in half, particularly on fast-selling items. So customers are finding a fresher selection of products they want at a fair price, sales are up, and product costs are substantially lower — a great example of how breaking through traditional supplier-retailer boundaries to benefit the customer can be a win for everyone.

Within the next two years, it's expected that most 7-Eleven stores in the U.S. will offer some level of ready-to-eat food service to their customers using fresh-food commissaries, bakeries and/or combined distribution centers. In the meantime, to alert more customers to what's changing, store events planned for 1995 will tie 7-Eleven's beverage and fresh-food categories together, encouraging customers to try something new, along with something familiar, at their neighborhood 7-Eleven store.



'Haute to Go' – Only at 7-Eleven!

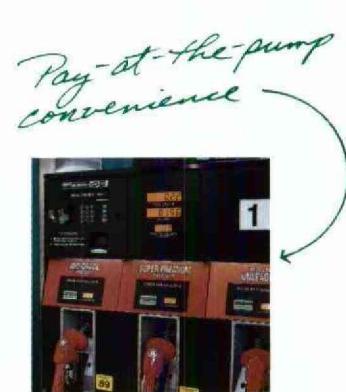
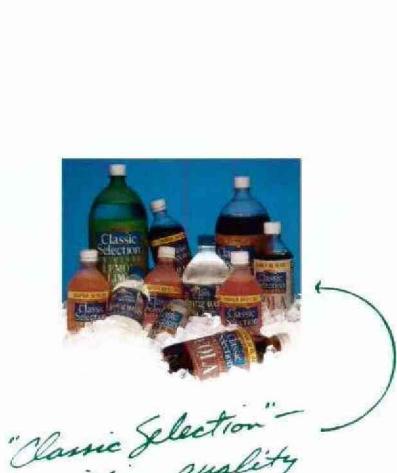
Another great new product line created by 7-Eleven and one of its suppliers in 1994 is gourmet hot chocolate and cappuccino — created especially for on-the-go 7-Eleven customers in single-serve sizes. In addition to popular Cafe Select flavored coffees, customers can now select the rich, creamy new drinks in five flavors: Chocolate Supreme, Sugar-Free Chocolate Supreme, Cinnamon Secret, Irish Creme Extreme or Chocolate Mint Fantasy.

'Classic Selection' Offers More Beverage Choices.

7-Eleven already has a reputation for having just about any beverage a person could want, cold or hot. In 1994 the choices expanded further as 7-Eleven introduced a new line of natural spring waters and soft drinks nationwide under its "Classic Selection" corporate brand. These items, produced by Cott Corp., are yet another example of team efforts with suppliers to develop new products exclusively for 7-Eleven customers. 7-Eleven is working with other suppliers to introduce additional corporate-branded products in stores around the country during 1995. Like Classic Selection beverages, these products will meet or exceed the quality of comparable major-brand merchandise, provide better values to customers, and offer improved margin opportunity for 7-Eleven.

More Gasoline Customers Fill Up at 7-Eleven.

Retail gasoline results continued to improve at 7-Eleven for the seventh consecutive year. Our remodeling program provides new or upgraded canopies, with brighter lighting, new dispensers, competitive prices and a variety of payment options which means more customers are buying quality, CITGO-branded gasoline. One option that's especially popular with customers is pay-at-the-pump credit-card readers, now available at nearly 700 7-Eleven stores, more than any other convenience retailer. These devices speed transactions outside at the pump, as well as inside at the register since merchandise customers no longer have to wait behind gasoline-only, credit-card customers. Gasoline customers at 7-Eleven pay the same price, cash or credit, and with pay-at-the-pump convenience, credit-card use is on the rise. Since they're not limited to



5:00 a.m. — Daily deliveries are completed before sunrise, so each 7-Eleven is well-stocked with the freshest-possible selection of quality products customers want.



cash on hand, credit-card customers tend to fill up their tanks with each visit and purchase more mid- and premium-grade fuels. As a result, retail gasoline continues to be an important part of the convenience mix, and the ongoing strength of gasoline sales and margins shows customers are getting the speedy transaction, product selection, quality, value and attractive environment they want at 7-Eleven.

Services Offer More Convenience.

Customer services offer 7-Eleven stores yet another way to attract more customers with convenience and quality at competitive prices. For example, customer enthusiasm for the growing number of state lotteries has made 7-Eleven the top retailer of *lottery tickets* in the country. *Money orders* are now sold at 4,800 7-Eleven stores; only the U.S. Post Office sells more! *Automatic teller machines* (ATMs) in 7-Eleven stores handled 85 million transactions in 1994. They'll be in 4,500

12:00 noon - Lunch at 7-Eleven - a perfect choice for on-the-go customers who want freshness, selection, fast service, a good value, and most of all quality!



stores when installation is completed this year, making 7-Eleven's the largest ATM network of any retailer. And in November 1994, more than 5,300 stores began selling the *7-Eleven Phone Card* in 15-, 30- and 60-minute increments. A phone card is a prepaid debit card that makes long-distance calling simpler and cheaper for its users. 7-Eleven was the first major retailer to issue its own proprietary phone card and in 1995 plans to introduce at least one "collector" card, as well as a 90-minute phone-card. With its nationwide network of stores and the explosive growth expected in the phone-card market, 7-Eleven is poised to be a dominant player for this hot new convenience service.

Movin' the Merchandise...

Phone cards are a good example of how a constantly changing selection of new products can attract and satisfy customers, both existing and new. In fact, new items are such an important

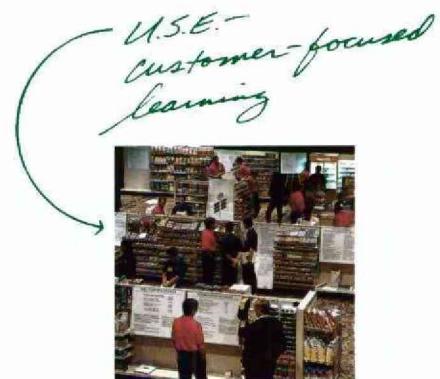
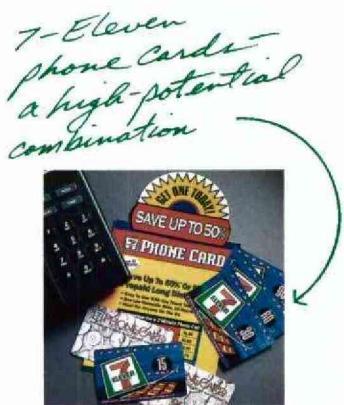
component of what's changing at 7-Eleven that over 1,460 were made available to the stores in 1994. Eye-catching endcap displays of nonfood, seasonal and licensed products feature new items for holidays and occasions like Mother's and Father's Day, Graduation and Summer. In addition, 7-Eleven's National Football League sponsorship has provided multiple opportunities to generate additional sales and national visibility for 7-Eleven.

Customer-Focused Training – Companywide.

Among the most important things customers expect of 7-Eleven is to find what they're looking for. If they don't, no amount of remodeling or fair prices will overcome the fact that the store lost a potential sale, if not a customer. Over 3,400 7-Eleven franchisees, corporate and field managers were trained last year on how to deliver what customers expect by applying the customer-focused principles that are now driving every aspect of 7-Eleven's business. That training, which will continue throughout 1995, tries to ensure that every member of 7-Eleven's team, whether in-store or in a field- or corporate-office support function, improves ordering processes so that no 7-Eleven store ever runs out of its fast-selling, high-potential items.

Proper ordering and other customer-focused merchandising principles were reinforced and supplemented at the third "University of 7-Eleven (U.S.E.)," held in February 1995. At the U.S.E., seminars, case studies, a model store and learning center, as well as new-product explanations and sampling were utilized as learning tools. Attendees include 7-Eleven's entire field, corporate and area licensee management team. U.S.E. gives them time with "experts" in any category of 7-Eleven's business, as well as their counterparts from other areas of the country — to ask questions, get answers and exchange information. It provides hands-on learning not easily duplicated in any other form, and that can be taken back home and used the very next day.

As new advertising scheduled for 1995 declares: the biggest change at 7-Eleven is that things are changing every day, shaping a new store and a new way of thinking to ensure that the products customers want will always be there, fresh and ready.



SELECTED FINANCIAL DATA
 THE SOUTHLAND CORPORATION AND SUBSIDIARIES

(Dollars in Millions, Except Per-Share Data)	Years Ended December 31				
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LIFO charge (credit)	3.0	(8.7)	1.5	(7.2)	27.9
Depreciation and amortization	162.7	154.4	180.3	200.1	227.6
Interest expense	108.6(a)	94.6(a)	123.6(a)	189.3(a)	459.5
Earnings (loss) before income taxes, extraordinary items and cumulative effect of accounting changes	73.5	(2.6)	(119.9)(d)	(66.3)	(430.0)(f)
Income taxes (benefit)	(18.5)(b)	8.7	11.5	8.0	(128.5)
Earnings (loss) before extraordinary items and cumulative effect of accounting changes	92.0	(11.3)	(131.4)	(74.3)	(301.5)
Net earnings (loss)	92.0	71.2(c)	(131.4)	82.5(e)	(276.6)(g)
Earnings (loss) per common share (primary and fully diluted):					
Before extraordinary items and cumulative effect of accounting changes	0.22	(0.03)	(0.32)	(0.22)	(15.14)
Net earnings (loss) applicable to common shares	0.22	0.17	(0.32)	0.24	(13.93)
Total assets	2,000.6	1,990.0	2,039.7	2,607.7	2,813.6
Long-term debt, including current portion	2,351.2(a)	2,419.9(a)	2,560.4(a)	3,037.1(a)	3,705.2
Redeemable preferred stock	—	—	—	—	148.5

- (a) The Notes and Debentures are accounted for in accordance with SFAS No. 15 as explained in Note 9 to the Consolidated Financial Statements.
- (b) Income taxes (benefit) includes a \$30,000,000 tax benefit from recognition of a portion of the Company's net deferred tax assets as explained in Note 15 to the Consolidated Financial Statements.
- (c) Net earnings include an extraordinary gain of \$98,968,000 on debt redemption and a charge for the cumulative effect of an accounting change for postemployment benefits of \$16,537,000 as explained in Notes 9 and 13 to the Consolidated Financial Statements, respectively.
- (d) Loss before income taxes, extraordinary items and cumulative effect of accounting changes includes a \$45,000,000 loss on the sale and closing of the distribution and food centers as explained in Note 6 to the Consolidated Financial Statements.
- (e) Net earnings include an extraordinary gain on debt restructuring of \$156,824,000.
- (f) Loss before income taxes, extraordinary items and cumulative effect of accounting changes reflects a loss of \$41,000,000 on Cityplace assets sold.
- (g) Net loss includes an extraordinary tax benefit from utilization of net operating loss carryforwards of \$52,040,000 and a charge for the cumulative effect of an accounting change for postretirement benefits of \$27,163,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Summary of Results of Operations

The Company's net earnings for 1994 were \$92.0 million, compared to net earnings of \$71.2 million in 1993 and a net loss of \$131.4 million in 1992. The Company showed marked improvement in its earnings before income taxes, extraordinary gain and cumulative effect of accounting change as reflected below:

(Dollars in Millions, Except Per-Share Data)	Years Ended December 31		
	1994	1993	1992
Earnings (loss) before income taxes, extraordinary gain and cumulative effect of accounting change	\$ 73.5	\$ (2.6)	\$ (119.9)
Income tax (expense) benefit	18.5	(8.7)	(11.5)
Extraordinary gain from redemption of the Company's 12% Senior Notes (refinanced in August 1993)		99.0	
Cumulative effect of accounting change for postemployment benefits		(16.5)	
Net earnings (loss)	<u>\$ 92.0</u>	<u>\$ 71.2</u>	<u>\$ (131.4)</u>
Earnings (loss) per common share (primary and fully diluted)	<u>\$.22</u>	<u>\$.17</u>	<u>\$ (.32)</u>

Each year's results included a number of special or unusual items which included among other things:

(Dollars in Millions)	1994	1993	1992
Loss for store closings and dispositions of properties	\$ (3.7)	\$ (48.2)	\$ (44.3)
Severance and related costs	(7.4)	(7.2)	(17.5)
Deferred income tax benefit	30.0		
Disposition of Citijet, a fixed-base operation at Dallas Love Field Airport		(10.8)	
Loss on the sale and closing of the Company's distribution and food processing centers			(45.0)

In addition to the special and unusual items noted above, the Company's improvement in 1994 earnings was primarily due to savings in selling, general and administrative expenses, offset by lower merchandise gross profit due to fewer stores. Although merchandise gross profit declined in total, merchandise sales and gross profits per store were favorable in 1994 compared to 1993 and 1992 and have been improving each quarter during 1994 over 1993.

(Except where noted, all per-store numbers below refer to an average of all stores rather than only stores open more than one year)

Sales

The Company recorded net sales of \$6.68 billion for the year ended December 31, 1994, compared to sales of \$6.74 billion in 1993 and \$7.43 billion in 1992. The 1994 sales decline is primarily the result of fewer convenience stores due to closures (see Management Strategies). Sales also declined in 1993 and 1992, primarily due to fewer stores, lower same-store (stores open more than one year) merchandise sales and the September 1992 disposition of the Company's distribution and food center assets (see Liquidity and Capital Resources-Other). Merchandise sales for 1994 and 1993 were also affected by the deflationary effect of cigarette price reductions (on certain premium brands) associated with manufacturers' cost reductions starting in August 1993. Merchandise sales increases or (decreases) as compared to the prior year and inflation information is detailed below:

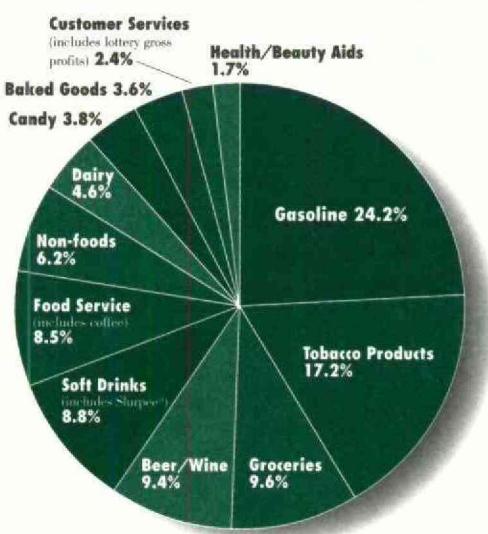
	Years Ended December 31		
	1994	1993	1992
Same-store sales	2.0 %	(2.7)%	(3.9)%
Same-store real growth; excluding inflation/(deflation)	2.8 %	(4.7)%	(5.6)%
7-Eleven inflation/(deflation)	(.7)%	2.2 %	1.9 %

Until 1994, same-store merchandise sales real growth (adjusted to exclude inflation) had declined since early 1989 primarily due to competitive pressures. This negative trend began to reverse in 1993, and in 1994 the Company achieved its first full year of same-store real growth in merchandise sales since 1988. The 1994 results also reflect the

first four consecutive quarters of positive same-store merchandise sales growth (including the effects of deflation or inflation) since the third quarter of 1990. The Company believes the improvement is a result of its new merchandising processes, everyday-fair-pricing and store-remodeling strategies (see Management Strategies).

Gasoline sales dollars per store increased 8.7%, 9.1% and 6.5% in 1994, 1993 and 1992, respectively. This increase is primarily due to per store gallonage improvement of 7.8% in 1994, 11.1% in 1993 and 6.3% in 1992. This continuing improvement reflects favorable market conditions, as well as the impact of several successful business strategies: ongoing remodeling to enhance the appeal and convenience of the Company's gas facilities; promoting the high quality of CITGO-brand gasoline; the closing of low-volume locations; and managing gasoline prices, inventories and product mix on a by-store basis.

Southland Convenience Store Sales by Category



(Percentages are estimates based on purchases)

Management Strategies

Since 1992, the Company has been committed to several key strategies that it believes, over the long term, will further differentiate it from its competitors and allow 7-Eleven to maintain its position as the premier convenience store chain in the industry. These strategies include: the extensive remodeling of its store base; a customer-driven approach to product selection; an everyday-fair-pricing policy on all items; the daily delivery of fresh perishable items; the introduction of quality, ready-to-eat fresh foods; and the implementation of a retail automation system.

The Company has been devoting the majority of its capital resources over the last couple of years toward the most extensive remodeling of its existing store base ever undertaken. In conjunction with the remodeling program, the Company has been pruning its store base as it identifies stores, which can be closed or disposed of, that are not expected to achieve an acceptable level of profitability in the future or meet minimum image standards. As a result, the Company closed 184 stores in 1994, 401 in 1993 and 358 in 1992. However, as the Company approaches completion of the remodeling program, it plans to strengthen its position in existing markets by expanding its store base. The planning process for this new store development is underway and new store openings should outpace store closures by 1997.

The customer-driven approach to merchandising, which was adopted by the Company in 1992, continues to focus on providing the customer an expanded selection of quality products at a good value. This is being accomplished by prioritizing the importance of ordering at the store level, removing slow-moving items and aggressively introducing new products in the early stages of their life cycle. This process, which has contributed to improved sales and profits, will be an ongoing part of managing our business in order to satisfy the ever-changing preferences of our customers.

The Company's everyday-fair-pricing strategy has provided consistent prices on all items by reducing its reliance on discounting of some products and lowering prices on others since its inception in 1992. Going forward, the Company will continue to migrate toward lower retail prices as the Company achieves decreased product costs through strategic alliances with its suppliers and distributors.

Daily delivery of fresh perishable items and high-quality ready-to-eat foods is another key management strategy. Implementation of this strategy includes third-party development and operation of combined distribution centers, fresh-food commissaries and bakery facilities in most of the Company's markets around the country. The commissary and bakery ready-to-eat items, like fresh sandwiches and pastries, along with goods from multiple vendors such as dairy products, produce and other perishable goods, are "combined" at a distribution center and delivered daily to each store. In addition to providing fresher products and improving in-stock conditions from daily deliveries, the combined distribution is also intended to lower product costs in part from vendor's savings on direct store deliveries. The Company expects the freshness and flexibility of the products from these operations to improve sales and gross profits.

The implementation of a retail automation system was begun by the Company in 1994. The initial phase involves installing in-store processors, which will automate accounting and other store-level tasks. After future phases are complete, the system will provide each store and its suppliers and distributors with information to make better decisions in anticipating customer needs. The in-store processors currently being installed will meet the demands of future phases of the automation process.

Gross Profits

Consolidated gross profits were \$1.54 billion for 1994, \$32.9 million below 1993, which was \$32.4 million below 1992, reflecting lower merchandise gross profits because of fewer stores. Even though total merchandise gross profits have declined, merchandise gross profit per store has consistently improved over prior year results for the last eight quarters. Also, the fourth quarter of 1994 showed growth in total merchandise gross profits over prior year results, for the first time since the first quarter of 1990. The following chart highlights the percent change in merchandise gross profit per store and the components thereof:

Increase/(decrease) from prior year	Years Ended December 31		
	1994	1993	1992
Average per store gross profit dollar change	2.1%	2.2%	(.3)%
Margin percentage point change	(.38)	1.16	.75
Same-store sales growth	2.0%	(2.7)%	(3.9)%

Merchandise gross profit margins were greatly affected, beginning in 1992, by the implementation of the everyday-fair-price strategy, which reduced discounting and promotional activities, increasing the margins in 1992 and 1993 (see Management Strategies). The margins also benefited from lower cigarette costs (beginning in August 1993) and lower costs of products under the Company's supply agreement with McLane (see Liquidity and Capital Resources — Other). In 1994, with the reduction of discounting in place, the Company tested lower prices in certain parts of the country as part of a more aggressive everyday-fair-price strategy. These lower prices, combined with increased costs for disposal of slow moving merchandise was primarily responsible for the decrease in 1994 merchandise margins.

Gasoline gross profits per store were 12.8%, 29.8% and 28.0% higher, compared to the preceding year, for 1994, 1993 and 1992, respectively. Gross profits improved

due to the combination of an increase in gallons sold and higher margins. Gross profit margin on gasoline sales was 14.5 cents per gallon for 1994, an increase of .6 cents compared to 1993, which was 2.0 cents higher than 1992. The increase in margins is attributed to favorable market conditions, the positive impact of capital expenditure programs and the continued improvement in by-store management of gasoline merchandising strategies.

Selling, General and Administrative Expenses ("SG&A")

(Dollars in Millions)	Years Ended December 31		
	1994	1993	1992
Total selling, general and administrative expenses	\$ 1,422.3	\$ 1,538.7	\$ 1,615.8
Ratio of reported SG&A to sales	21.3%	22.8%	21.8%
(Decrease)/increase in reported SG&A compared to prior year	\$ (116.4)	\$ (77.1)	\$ 22.7
Decrease in adjusted SG&A compared to prior year*	\$ (61.3)	\$ (81.5)	\$ (24.7)

* adjusted to exclude severance and related costs and the loss for store closings and dispositions of properties, including Citijet (see Summary of Results of Operations).

The majority of the decrease in SG&A expense, as adjusted, resulted from cost savings realized from reductions in force that began late in 1992 and continued through 1994, combined with the effect of having fewer stores (see Management Strategies). Also, in the fourth quarter, the Company included 1994 year-to-date amounts of certain expenses, totaling approximately \$20 million (approximately \$15 million through September 30th) in selling, general and administrative expenses rather than in cost of goods sold where they had been included in prior periods.

In 1993 and 1992, after reviewing the functions necessary to enable its stores to respond faster, more creatively and more cost efficiently to rapidly changing customer needs and preferences, the Company implemented certain reorganization plans. During the third quarter of 1994, the Company began a similar review that was completed in December. The Company anticipates that the latest review will result in approximately \$18 million in annual savings beginning in 1995. The resultant plan will both realign and

reduce personnel and will require changes in the location and size of office facilities. Approximately 335 employees throughout the Company will be terminated during 1995. In addition, one office facility will be sold at a loss and space at several leased facilities will be terminated or subleased. The \$7.4 million cost of the plan was accrued in SG&A expense, and is comprised of \$5.7 million for severance benefits and \$1.7 million for changes in office facilities. Management intends for the review process to be ongoing, but currently can not predict what further recommendations will be made nor the timing of their implementation.

Interest Expense

The Company's total interest expense in 1994 increased \$14.0 million over 1993, primarily due to the refinancing of the 12% Senior Notes with working capital and bank debt in August 1993. Unlike the interest on the bank debt, interest on the 12% Senior Notes was subject to SFAS No. 15 treatment with interest payments recorded as a reduction of principal rather than interest expense (see Note 9 of "Notes to Consolidated Financial Statements").

Interest expense in 1993 and 1992 declined \$29.1 million and \$65.6 million as compared to prior years, respectively. The decline in interest expense in 1993 and 1992 was primarily due to declining interest rates on floating rate debt and lower term loan balances, combined with greater use of commercial paper in 1993, which has lower interest rates than other debt instruments.

On December 21, 1994 the Company refinanced its bank debt under the senior bank credit agreement ("Credit Agreement") and obtained, among other things, a reduction in its borrowing spreads. As a result of this refinancing, the Company expects to save approximately \$7 million in interest expense in 1995 over what it would have incurred under the previous terms of the facility. In February 1995, the Company extended the repayment of the debt relating to its headquarters facilities (Cityplace) at a lower interest rate, which will result in approximately \$2.8 million of cash interest savings in 1995 (see Liquidity and Capital Resources — Financing Activities).

The weighted average interest rate on the Company's floating rate debt was 5.51% in 1994, 4.52% in 1993 and 6.56% in 1992. Approximately 31% of the Company's debt contains floating rates that will be unfavorably impacted by rising interest rates. However, overall interest

expense in 1995 is expected to decline when compared to 1994, as a result of factors noted above.

Income Taxes

The Company recorded a tax benefit of \$18.5 million in 1994, compared to a tax provision of \$8.7 million and \$11.5 million in 1993 and 1992, respectively. The 1994 tax benefit is primarily due to the realization of a portion of the Company's net deferred tax asset. Based on a one-year projection of taxable income, the Company has recognized a portion of its net deferred tax asset through a \$30.0 million reduction in the valuation allowance with \$13.9 million recorded in other current assets and the remainder in other assets. Taxable income for 1995 was projected by utilizing steady state assumptions defined as only inflationary increases in sales and no increase in gross profit margins. If the Company's current trend of profitability continues, then additional deferred tax assets of up to approximately \$175 million could be recognized.

LIQUIDITY AND CAPITAL RESOURCES

The majority of the Company's working capital is provided from three sources: i) cash flows generated from its operating activities, ii) a \$400 million commercial paper facility (guaranteed by Ito-Yokado Co., Ltd.), and iii) short-term seasonal borrowings of up to \$150 million from its revolving credit facility. The Company believes that its operating activities coupled with its available short-term working capital facilities will provide sufficient liquidity for it to fund its current operating and capital expenditure programs and service debt requirements.

Financing Activities

In December 1994, the Company amended its Credit Agreement, refinancing its old term loans (\$281.7 million) and revolving credit facility, with a new term loan ("Term Loan") and new revolving credit facility. The new revolving credit facility was extended through December 31, 1999 and contains both a revolving loan ("Revolver") and letter of credit subfacility; these two facilities each have a maximum limit of \$150 million. The Term Loan (\$300 million) has scheduled quarterly repayments of \$18.75 million commencing March 31, 1996 through December 31, 1999. Interest on the Revolver and Term Loan is generally based on a variable rate equal to the administrative agent bank's base rate or, at the Company's option, at a rate equal to the

Eurodollar rate plus .975% per year (see Results of Operations — Interest Expense).

The amended Credit Agreement has eliminated certain financial and operating covenants required under the old agreement. These include, among other things, the attainment of certain levels of earnings before interest, taxes, depreciation and amortization ("EBITDA") and the ratio of senior indebtedness to subordinated indebtedness.

Although certain covenants and the required levels have been modified under the amended Credit Agreement, they continue to require ongoing improvement in the Company's financial condition. For the period ended December 31, 1994, the Company was in compliance with all of the covenants required under the Credit Agreement as amended. The Company complied with the principal financial and operating covenants, which are calculated over the latest 12-month period, as follows:

Covenants	Requirements:		
	Actuals	Minimum	Maximum
Interest coverage*	2.61 to 1.0	2.35 to 1.0	
Fixed charge coverage	.82 to 1.0	.55 to 1.0	
Senior indebtedness to EBITDA	4.35 to 1.0		4.85 to 1.0

* includes effects of the SFAS No. 15 interest payments.

In 1994, the Company paid \$400.6 million of debt principal of which \$281.7 million related to the amendment of the Credit Agreement. Other principal reductions during the course of the year were \$118.9 million of which \$83.7 million was for secured indebtedness (\$47.3 million on the old term loans) and \$35.2 million was SFAS No. 15 interest. Outstanding balances on December 31, 1994 for the commercial paper, the Revolver and the Term Loan were \$391.3 million, \$50.0 million and \$300.0 million, respectively. As of December 31, 1994, outstanding letters of credit related to the Credit Agreement totaled \$119.9 million.

As a result of an agreement reached in conjunction with the Company's bankruptcy proceedings in 1990, on February 15, 1995, the 7½% Cityplace notes, issued by Cityplace Center East Corporation ("CCEC"), a wholly owned subsidiary of the Company, were repaid under a drawing of a letter of credit issued by The Sanwa Bank, Ltd. Under such agreement, the term of maturity of the indebtedness of CCEC resulting from such draw has been extended

by ten years to March 1, 2005. New terms include monthly payments of principal and interest over the ten year period, based upon a 25-year amortization at 7½%, with the remaining principal due upon maturity.

Cash From Operating Activities

Net cash provided by operating activities was \$271.6 million for 1994 compared to \$232.1 million in 1993 and \$172.6 million in 1992. In 1994, the majority of cash was provided by operations, combined with a \$24.3 million decrease in other assets primarily due to a reduction in cash collateral required for payment of anticipated insurance claims (see Results of Operations).

Capital Expenditures

During 1994, net cash used in investing activities consisted primarily of payments of \$171.6 million for property, plant and equipment, the majority of which was used for remodeling stores, upgrading retail gasoline facilities, replacing equipment and complying with environmental regulations. The Company expects 1995 capital expenditures to be approximately \$200 million, primarily to complete remodels started in 1994 and to remodel about 1,400 additional stores. In addition, the Company is expected to use approximately 13% of 1995's capital expenditures on the retail automation project (see Management Strategies).

Through December 31, 1994, approximately 2,700 stores had been remodeled. As in 1994, the 1995 average-per-store capital expenditures and associated upfront expenses will be less than 1993 levels and will focus on the features that are most noticeable to customers and have the most immediate and positive impact on store performance, such as lighting and security, food service equipment, necessary maintenance and consistent image. Reducing the scope of the remodels has also virtually eliminated the need to close stores during construction, which negatively affected merchandise sales at stores remodeled in 1993.

Capital Expenditures — Gasoline Equipment

The Company anticipates that it will spend approximately \$14 million in 1995 on capital improvements required to comply with environmental regulations relating to below-ground gasoline storage tank systems as well as above-ground vapor recovery equipment at store locations and approximately an additional \$25 million on such capital improvements from 1996 through 1998.

Environmental Compliance — Stores

The Company accrues for the anticipated future costs of environmental clean-up activities (consisting of contamination assessment and remediation) relating to detected releases of regulated substances at its existing and previously operated sites at which gasoline has been sold (including store sites and other facilities that have been sold by the Company). At December 31, 1994, the Company has an accrued liability of \$63.4 million for such activities and anticipates that substantially all such expenditures will be incurred within the next five years. This estimate is based on the Company's prior experience with gasoline sites and its analysis of such factors as the age of the tanks, location of tank sites and experience with contractors who perform contamination assessment and remedial work.

The Company is eligible to receive reimbursement for a large portion of these costs under state reimbursement programs and has recorded a gross receivable of \$76.1 million (a net receivable of \$57.2 million after an allowance of \$18.9 million) for the estimated probable state reimbursement of paid and accrued assessment and remediation expenses. The Company reduced the estimated net environmental cost reimbursements at the end of 1994 by approximately \$6.0 million as a result of completing a review of state reimbursement programs. There is no assurance of the timing of the receipt of state reimbursement funds; however, based on its experience, the Company expects to receive state reimbursement funds within one to four years after payment of eligible assessment and remediation expenses, assuming that the state administrative procedures for processing such reimbursements have been fully developed.

The estimated future assessment and remediation expenditures and related state reimbursement amounts could change as governmental requirements and state reimbursement programs change in future years.

Environmental Compliance — Chemical Plant

In December 1988, the Company closed its chemical manufacturing facility in New Jersey. As a result, the Company is required to conduct environmental remediation at the facility and has accrued a liability for this purpose. As required, the Company has submitted a clean-up plan to the New Jersey Department of Environmental Protection

(the "State"), which provides for remediation of the site for approximately a three-to-five year period, as well as continued groundwater treatment for a projected 20-year period. While the Company has received initial comments from the State, the clean-up plan has not been finalized. The Company has recorded liabilities representing its best estimates of the clean-up costs of \$39.3 million and \$38.9 million at December 31, 1994 and 1993, respectively. Of this amount, \$34.2 million and \$33.8 million are included in deferred credits and other liabilities and the remainder in accrued expenses and other liabilities for the respective years. In 1991, the Company entered into a settlement agreement with a large chemical company that formerly owned the facility. Under the settlement agreement, the former owner agreed to pay a substantial portion of the clean-up costs described above. The Company has recorded a receivable of \$23.0 million at December 31, 1994, representing the former owner's portion of the clean-up costs.

None of the amounts related to environmental liabilities, for the stores or the chemical plant, have been discounted.

Other

In November 1992, the McLane Company, Inc. ("McLane"), acquired certain of the Company's distribution and food center assets. In addition, Southland ceased operations in December 1992 at its distribution and food centers in Orlando, Florida and Tyler, Texas and in April 1993 at Champaign, Illinois. The Company disposed of its facility in Orlando in November 1993, its facility in Tyler in March 1994 and the Champaign facility in December 1994. These transactions did not have a material impact on 1994 or 1993 earnings, since they were included in the \$45.0 million loss recognized in 1992 resulting from the sale to McLane and related plant closings. Since the transaction, the Company has benefited from lower cost of products purchased under a supply agreement with McLane. In addition to the \$141.8 million in gross proceeds received from McLane in connection with the acquisition of the Company's distribution and food processing assets in 1992, \$44.9 million of cash was received in 1993, primarily from the sale of inventories to McLane and \$6.3 million was received in 1994 related to the sale of the Tyler facility.

In 1993, the Company disposed of its last non-convenience retailing business, the Citijet fixed-base operation at Dallas Love Field Airport, and recognized a loss of \$10.8 million on the transaction.

CONSOLIDATED BALANCE SHEETS

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

December 31

(Dollars in Thousands, Except Per-Share Data)

1994

1993

ASSETS

	1994	1993
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 59,288	\$ 13,486
Accounts and notes receivable	102,230	90,934
Inventories	101,468	109,363
Other current assets	40,411	31,954
Total current assets	303,397	245,737
Property, plant and equipment	1,314,499	1,328,793
Other assets	382,698	415,422
	\$ 2,000,594	\$ 1,989,952

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

	1994	1993
Current liabilities:		
Trade accounts payable	\$ 203,315	\$ 196,026
Accrued expenses and other liabilities	316,183	327,570
Commercial paper	41,322	41,220
Long-term debt due within one year	123,989	149,503
Total current liabilities	684,809	714,319
Deferred credits and other liabilities	245,807	253,626
Long-term debt	2,227,209	2,270,357
Commitments and contingencies		
Shareholders' equity (deficit):		
Common stock, \$.0001 par value; 1,000,000,000 shares authorized;		
409,922,935 shares issued and outstanding	41	41
Additional capital	625,574	625,574
Accumulated deficit	(1,782,846)	(1,873,965)
Total shareholders' equity (deficit)	(1,157,231)	(1,248,350)
	\$ 2,000,594	\$ 1,989,952

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

(Dollars in Thousands, Except Per-Share Data)	Years Ended December 31		
	1994	1993	1992
Revenues:			
Net sales (including \$992,970, \$962,955 and \$986,962 in excise taxes)	\$ 6,684,495	\$ 6,744,333	\$ 7,425,844
Other income	75,312	69,902	73,570
	6,759,807	6,814,235	7,499,414
Cost of goods sold and expenses:			
Cost of goods sold	5,144,916	5,171,806	5,820,817
Selling, general and administrative expenses	1,422,311	1,538,719	1,615,799
Loss on sale and closing of distribution and food centers	—	—	45,000
Interest expense	108,588	94,559	123,647
Contributions to Employees' Savings and Profit Sharing Plan	10,496	11,731	14,100
	6,686,311	6,816,815	7,619,363
Earnings (loss) before income taxes, extraordinary gain and cumulative effect of accounting change			
Income taxes (benefit)	73,496	(2,580)	(119,949)
	(18,500)	8,700	11,500
Earnings (loss) before extraordinary gain and cumulative effect of accounting change			
Extraordinary gain on debt redemption	—	98,968	—
Cumulative effect of accounting change for postemployment benefits	—	(16,537)	—
Net earnings (loss)	\$ 91,996	\$ 71,151	\$ (131,449)
Earnings (loss) per common share (primary and fully diluted):			
Before extraordinary gain and cumulative effect of accounting change	\$.22	\$ (.03)	\$ (.32)
Extraordinary gain	—	.24	—
Cumulative effect of accounting change	—	(.04)	—
Net earnings (loss)	\$.22	\$.17	\$ (.32)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
THE SOUTHLAND CORPORATION AND SUBSIDIARIES

<i>(Dollars in Thousands, Except Share Amounts)</i>	Common Stock		Additional Capital	Accumulated Deficit	Total Shareholders' Equity(Deficit)
	Shares	Amount			
Balance, January 1, 1992	410,022,481	\$ 41	\$ 599,588	\$ (1,809,912)	\$ (1,210,283)
Net loss	—	—	—	(131,449)	(131,449)
Adjustment for redeemable common stock purchase warrants	—	—	26,136	—	26,136
Foreign currency translation adjustments	—	—	—	(3,163)	(3,163)
Balance, December 31, 1992	410,022,481	41	625,724	(1,944,524)	(1,318,759)
Net earnings	—	—	—	71,151	71,151
Cancellation of shares	(99,546)	—	(150)	112	(38)
Foreign currency translation adjustments	—	—	—	(704)	(704)
Balance, December 31, 1993	409,922,935	41	625,574	(1,873,965)	(1,248,350)
Net earnings	—	—	—	91,996	91,996
Foreign currency translation adjustments	—	—	—	(877)	(877)
Balance, December 31, 1994	<u>409,922,935</u>	<u>\$ 41</u>	<u>\$ 625,574</u>	<u>\$ (1,782,846)</u>	<u>\$ (1,157,231)</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

(Dollars in Thousands)	Years Ended December 31		
	1994	1993	1992
Cash flows from operating activities:			
Net earnings (loss)	\$ 91,996	\$ 71,151	\$ (131,449)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Extraordinary gain on debt redemption	—	(98,968)	—
Cumulative effect of accounting change for postemployment benefits	—	16,537	—
Depreciation and amortization of property, plant and equipment	143,670	134,920	160,502
Other amortization	19,026	19,430	19,778
Deferred income taxes	(30,000)	—	—
Noncash interest expense	11,384	8,497	12,429
Other noncash expense	614	3,393	4,874
Net loss on property, plant and equipment	274	48,017	46,064
Loss on sale and closing of distribution and food centers	—	—	45,000
(Increase) decrease in accounts and notes receivable	(3,066)	24,937	5,190
Decrease in inventories	7,895	16,347	12,252
Decrease in other assets	24,273	3,344	6,052
Increase (decrease) in trade accounts payable and other liabilities	5,501	(15,528)	(8,102)
Net cash provided by operating activities	271,567	232,077	172,590
Cash flows from investing activities:			
Payments for purchase of property, plant and equipment	(171,636)	(195,146)	(88,575)
Proceeds from sale of property, plant and equipment	15,867	22,809	15,827
Net currency exchange principal transactions	(5,133)	(8,894)	(6,635)
Payments on notes from sales of real estate	2,105	1,152	1,317
Cash received from other investments	266	3,830	822
Cash utilized by distribution and food center assets	(2,790)	(17,739)	(54,020)
Proceeds from sale of distribution and food center assets	6,305	44,889	141,793
Net cash (used in) provided by investing activities	(155,016)	(149,099)	10,529
Cash flows from financing activities:			
Proceeds from commercial paper and revolving credit facilities	4,451,774	4,111,500	2,007,239
Payments under commercial paper and revolving credit facilities	(4,418,693)	(3,927,234)	(1,785,717)
Proceeds from issuance of long-term debt	300,000	150,000	—
Principal payments under long-term debt agreements	(400,580)	(403,125)	(624,527)
Debt issuance costs	(3,250)	(2,437)	(5,329)
Net cash used in financing activities	(70,749)	(71,296)	(408,334)
Net increase (decrease) in cash and cash equivalents	45,802	11,682	(225,215)
Cash and cash equivalents at beginning of year	13,486	1,804	227,019
Cash and cash equivalents at end of year	\$ 59,288	\$ 13,486	\$ 1,804
Related disclosures for cash flow reporting:			
Interest paid, excluding SFAS No. 15 Interest	\$ (98,157)	\$ (87,631)	\$ (116,931)
Net income taxes (paid) refunded	\$ (7,810)	\$ (7,969)	\$ 3,323

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992

1. ACCOUNTING POLICIES

Principles of Consolidation

The Southland Corporation and subsidiaries ("the Company") is owned approximately 64% by IYG Holding Company, which is jointly owned by Ito-Yokado Co., Ltd. ("IY") and Seven-Eleven Japan Co., Ltd. ("SEJ").

The consolidated financial statements include the accounts of The Southland Corporation and its subsidiaries. Intercompany transactions and account balances are eliminated. Prior-year amounts have been reclassified to conform to current-year presentation.

The Company's net sales are comprised of sales of products and services. Net sales and cost of goods sold of stores operated by franchisees are consolidated with the results of Company-operated stores. Net sales of stores operated by franchisees are \$2,820,685,000, \$2,810,270,000 and \$2,931,494,000 from 2,962, 2,998 and 3,011 stores for the years ended December 31, 1994, 1993 and 1992, respectively. Under the present franchise agreements, initial franchise fees are recognized in income currently and are generally calculated based upon gross profit experience for the store or market area. These fees cover certain costs including training, an allowance for travel, meals and lodging for the trainees and other costs relating to the franchising of the store.

The gross profit of the franchise stores is split between the Company and its franchisees. The Company's share of the gross profit of franchise stores is its continuing franchise fee, generally ranging from 50% to 58% of the gross profit of the store, which is charged to the franchisee for the license to use the 7-Eleven operating system and trademarks, for the lease and use of the store premises and equipment, and for continuing services provided by the Company. These services include merchandising, advertising, recordkeeping, store audits, contractual indemnification, business counseling services, training seminars and preparation of financial statements. The gross profit earned by the Company's franchisees of \$517,955,000, \$530,436,000 and \$539,835,000 for the years ended December 31, 1994, 1993 and 1992, respectively, are included in the Consolidated Statements of Operations as selling, general and administrative expenses.

Sales by stores operated under domestic and foreign area license agreements are not included in consolidated revenues. All fees or royalties arising from such agreements are included in other income. Initial fees, which have been immaterial, are recognized when the services required under the agreements are performed.

Other Income

Other income is primarily comprised of area license royalties and interest income. The area license royalties include amounts from area license agreements with SEJ of approximately \$42,000,000, \$39,000,000 and \$37,000,000 for the years ended December 31, 1994, 1993 and 1992, respectively.

Cost of Goods Sold

Cost of goods sold includes buying and occupancy expenses.

Cash and Cash Equivalents

Cash and cash equivalents include temporary cash investments of \$3,028,000 and \$11,345,000 at December 31, 1994 and 1993, respectively, stated at cost, which approximates market. The Company considers all highly liquid investment instruments purchased with maturities of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market. Cost is generally determined by the LIFO method for stores in the United States and by the FIFO method for stores in Canada.

Depreciation and Amortization

Depreciation of buildings and equipment is based upon the estimated useful lives of these assets using the straight-line method. Amortization of capital leases, improvements to leased properties and favorable leaseholds is based upon the remaining terms of the leases or the estimated useful lives, whichever is shorter.

Foreign and domestic area license royalty intangibles were recorded in 1987 at the fair value of future royalty payments and are being amortized over 20 years using the straight-line method. The 20-year life is less than the estimated lives of the various royalty agreements, the majority of which are perpetual.

Store Closings

Provision is made on a current basis for the write-down of identified owned-store closings to their net realizable value. For identified leased-store closings, provision is made on a current basis if anticipated expenses are in excess of expected sublease rental income. The recorded value of assets for certain stores with marginal financial results is periodically evaluated, and, if necessary, the carrying value of the asset is adjusted.

Business Segment

The Company operates in a single business segment — the operating and franchising of convenience food stores, primarily under the 7-Eleven name.

2. ACCOUNTS AND NOTES RECEIVABLE

(Dollars in Thousands)	December 31	
	1994	1993
Notes receivable (net of long-term portion of \$15,309 and \$18,310)	\$ 5,773	\$ 3,030
Trade accounts receivable	42,856	48,609
Franchisee accounts receivable	47,682	38,823
Environmental cost reimbursements (net of long-term portion of \$67,546 and \$72,038) — see Note 14	12,709	8,294
	109,020	98,756
Allowance for doubtful accounts	(6,790)	(7,822)
	<u>\$ 102,230</u>	<u>\$ 90,934</u>

3. INVENTORIES

Inventories stated on the LIFO basis that are included in inventories in the accompanying Consolidated Balance Sheets were \$63,340,000 and \$65,607,000 at December 31, 1994 and 1993, respectively, which is less than replacement cost by \$28,286,000 and \$25,292,000, respectively. At December 31, 1993 and 1992, inventories were reduced resulting in a liquidation of LIFO inventory layers recorded at costs that were lower than the costs of current purchases. The effects of these reductions were to decrease cost of goods sold by approximately \$3,900,000 in 1993 and to decrease the loss on the sale and closing of the distribution and food centers by approximately \$23,000,000 in 1992.

4. OTHER CURRENT ASSETS

(Dollars in Thousands)	December 31	
	1994	1993
Prepaid expenses	\$ 18,474	\$ 19,165
Other	21,937	12,789
	<u>\$ 40,411</u>	<u>\$ 31,954</u>

5. PROPERTY, PLANT AND EQUIPMENT

(Dollars in Thousands)	December 31	
	1994	1993
Cost:		
Land	\$ 475,611	\$ 493,934
Buildings and leaseholds	1,223,128	1,211,531
Equipment	623,755	578,289
Construction in process	35,634	35,321
	2,358,128	2,319,075
Accumulated depreciation and amortization	(1,043,629)	(990,282)
	<u>\$ 1,314,499</u>	<u>\$ 1,328,793</u>

6. DIVESTED ASSETS

In November 1992, the Company sold two of its five distribution centers and three of its six food centers to McLane Company, Inc. ("McLane"). The remaining facilities were disposed of in 1993 and 1994. For the years ended December 31, 1994, 1993 and 1992, the Company received cash proceeds of approximately \$6,300,000, \$44,900,000 and \$141,800,000, respectively, from the disposition of distribution and food center assets.

The \$45 million pre-tax loss on the sale and closing of the distribution and food centers in 1992 included the loss from the sale of assets to McLane, the expected loss on dispositions of the remaining facilities, and the expected net cash outflows on all such facilities subsequent to August 31, 1992 (the measurement date), until the expected dates of disposition. Operating results prior to the disposition of the facilities, which were included in the loss, and adjustments to the loss upon final disposition were not material.

7. OTHER ASSETS

(Dollars in Thousands)	December 31	
	1994	1993
Japanese license royalty intangible (net of accumulated amortization of \$116,972 and \$100,957)	\$ 201,528	\$ 217,543
Other license royalty intangibles (net of accumulated amortization of \$20,914 and \$18,077)	35,690	38,692
Environmental cost reimbursements (net of allowance of \$18,890 and \$12,529) — see Note 14	67,546	72,038
Other (net of accumulated amortization of \$7,281 and \$66,115)	77,934	87,149
	\$ 382,698	\$ 415,422

8. ACCRUED EXPENSES AND OTHER LIABILITIES

(Dollars in Thousands)	December 31	
	1994	1993
Accrued insurance	\$ 95,372	\$ 94,121
Accrued payroll	51,024	47,690
Accrued taxes, other than income	40,372	39,173
Accrued environmental costs	35,574	28,904
Other	93,841	117,682
	\$ 316,183	\$ 327,570

Other includes accounts payable to The Southland Corporation Employees' Savings and Profit Sharing Plan (see Note 13) for contributions and contingent rent payables of \$13,186,000 and \$14,098,000 as of December 31, 1994 and 1993, respectively.

In December 1994, the Company completed a review of the functions necessary to enable its stores to respond faster, more creatively and more cost efficiently to rapidly changing customer needs and preferences. The resultant plan will both realign and reduce personnel and will require changes in the location and size of office facilities. Approximately 335 employees in various positions throughout the Company

will be terminated during 1995. In addition, one owned office facility will be sold at a loss and space at several leased facilities will be terminated or subleased. The \$7,405,000 cost of the plan was accrued in selling, general and administrative expenses, and is comprised of \$5,668,000 for severance benefits and \$1,737,000 for changes in office facilities.

9. DEBT

(Dollars in Thousands)	December 31	
	1994	1993
Bank Debt Term Loans	\$ 300,000	\$ 329,017
Bank Debt revolving credit facility	50,000	15,000
Commercial paper	350,000	350,000
5% First Priority Senior Subordinated Debentures due 2003	615,539	638,070
4 1/4% Second Priority Senior Subordinated Debentures (Series A) due 2004	294,597	303,884
4% Second Priority Senior Subordinated Debentures (Series B) due 2004	25,897	26,648
12% Second Priority Senior Subordinated Debentures (Series C) due 2009	59,696	62,311
6 1/4% Yen Loan	253,114	273,793
7 1/2% Cityplace Notes due 1995	289,698	287,363
Canadian revolving credit facility	5,678	7,499
Capital lease obligations	105,159	120,398
Other	1,820	5,877
	2,351,198	2,419,860
Less long-term debt due within one year	123,989	149,503
	\$ 2,227,209	\$ 2,270,357

Bank Debt

The Company is obligated to a group of lenders under a credit agreement ("Credit Agreement") that includes term loans and a revolving credit facility (collectively "Bank Debt"). In December 1994, the Credit Agreement was amended to extend its maturity through December 31, 1999, and to change various financial and operating covenants to reduce certain restrictions. The financial and operating covenants require, among other things, the maintenance of certain financial ratios including interest coverage, fixed-charge coverage and senior indebtedness to earnings before interest, income taxes, depreciation and amortization. The Credit Agreement also contains various covenants which, among other things, (a) limit the Company's ability to incur or guarantee indebtedness or other liabilities other than under the Credit Agreement, (b) restrict the Company's ability to engage in asset sales and sale/leaseback transactions, (c) restrict the types of investments the Company can make and (d) restrict the Company's ability to pay cash dividends, redeem or prepay principal and interest on any subordinated debt and certain senior debt (except in connection with certain sinking fund obligations under the 5% First Priority Senior Subordinated Debentures due 2003). Under the Credit Agreement, all of the assets of the Company, with the exception of certain specified property, serve as collateral.

The amendment to the Credit Agreement refinanced the existing term loans and revolving credit facility with a new term loan and a new revolving credit facility. The new term loan provided proceeds of \$300 million, which were primarily used to retire the existing term loans. The new term loan is to be repaid in sixteen quarterly installments of \$18,750,000 commencing March 31, 1996. The new revolving credit facility makes available borrowings and letters of credit totaling a maximum of \$300 million. Maximum borrowings and letters of credit under the revolving credit facility are set at \$150 million each. Upon expiration of the facility, all the then outstanding letters of credit must expire and may need to be replaced, and all other amounts then outstanding will be due and payable in full. At December 31, 1994, outstanding letters of credit related to the Credit Agreement totaled \$119,927,000.

Interest on the Bank Debt is generally payable quarterly and is based on a variable rate equal to the administrative agent bank's base rate or, at the Company's option, at a rate equal to a reserve-adjusted Eurodollar rate plus .975% per year. The weighted-average interest rate on the term loan and revolving credit facility borrowings outstanding at December 31, 1994, was 7.1% and 8.5%, respectively. A fee of .925% per year on the outstanding amount of letters of credit is required to be paid quarterly. A .5% per year commitment fee on unadvanced funds, which for purposes of this calculation include unissued letters of credit, is payable quarterly. The weighted-average interest rate on revolving credit facility borrowings outstanding at December 31, 1993, was 7.5%.

In 1992 and 1993, the Credit Agreement was amended in connection with certain activities of the Company. In September 1992, the Company entered into an amendment that permitted the establishment of a \$400 million commercial paper facility. In connection with this amendment, the Company was required to make a \$350 million prepayment on the term loans. In addition, as a result of the disposition of the distribution and food center assets (see Note 6) and in accordance with an October 1992 amendment, a \$110 million prepayment on the term loans was made in December 1992. In August 1993, the Company completed a refinancing of its 12% Senior Notes with proceeds from working capital and an additional \$150 million term loan under the Credit Agreement (the "Refinancing"). An amendment was executed to provide for the additional term loan, which was subsequently repaid from proceeds of the new term loan.

Commercial Paper

In September 1992, the Company obtained a facility that provides for the issuance of up to \$400 million in commercial paper. At December 31, 1994, \$350 million of the \$391,322,000 outstanding principal, net of discount, was classified as long-term debt since the Company intends to maintain at least this amount outstanding during the next year. Such debt is unsecured and is fully and unconditionally guaranteed by IY. IY has agreed to continue its guarantee of all commercial paper issued through 1996. While it is not anticipated that IY would be required to perform under its commercial paper guarantee, in the event IY makes any payments under the guarantee, the Company and IY have entered into an agreement by which the Company is

required to reimburse IY subject to restrictions in the Credit Agreement. The weighted-average interest rate on commercial paper borrowings outstanding at December 31, 1994 and 1993, respectively, was 6.0% and 3.3%.

Notes and Debentures

The Notes and Debentures are accounted for in accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring," and were initially recorded at an amount equal to the future undiscounted cash payments, both principal and interest ("SFAS No. 15 Interest"). Accordingly, no interest expense will be recognized over the life of these securities, and cash interest payments will be charged against the recorded amount of such securities. Interest on all of the Notes and Debentures is payable in cash semiannually on June 15 and December 15 of each year.

The 5% First Priority Senior Subordinated Debentures, due December 15, 2003, with an aggregate principal amount of \$450,614,000 at December 31, 1994, are redeemable at any time at the Company's option at 100% of principal amount. Annual sinking fund payments of \$27,037,000 are due each December 15, commencing 1996 through 2002. These payments retire 42% of the debt before maturity.

The Second Priority Senior Subordinated Debentures were issued in three series, and each series is redeemable at any time at the Company's option at 100% of principal amount and are described as follows:

- 4½% Series A Debentures, due June 15, 2004, had an aggregate principal amount of \$206,373,000 at December 31, 1994.
- 4% Series B Debentures, due June 15, 2004, had an aggregate principal amount of \$18,766,000 at December 31, 1994.
- 12% Series C Debentures, due June 15, 2009, had an aggregate principal amount of \$21,787,000 at December 31, 1994.

The Debentures contain certain covenants that, among other things, (a) limit the payment of dividends and certain other restricted payments by both the Company and its subsidiaries, (b) require the purchase by the Company of the Debentures at the option of the holder upon a change of control, (c) limit additional indebtedness, (d) limit future exchange offers, (e) limit the repayment of subordinated indebtedness, (f) require board approval of certain asset sales, (g) limit transactions with certain stockholders and affiliates, and (h) limit consolidations, mergers and the conveyance of all or substantially all of the Company's assets.

The First and Second Priority Senior Subordinated Debentures are subordinate to the outstanding Bank Debt and to previously outstanding mortgages and notes that are either backed by specific collateral or are general uncured, unsubordinated obligations. The Second Priority Debentures are subordinate to the First Priority Debentures.

The Company had an issuance of 12% Senior Notes, which was due December 15, 1996, with an aggregate principal amount of \$250,553,000. These notes were redeemed in August 1993, resulting in an extraordinary gain of \$98,968,000, which had no tax effect.

Yen Loan

In March 1988, the Company monetized its future royalty payments from SEJ, the area licensee in Japan, through a loan that is nonrecourse to the Company as to principal and interest. The debt, payable in Japanese yen, was in the amount of 41 billion yen, or approximately \$327,000,000 (at the exchange rate in March 1988), and is collateralized by the Japanese trademarks and a pledge of the future royalty payments. The current interest rate of 6½% will be reset after March 1998. Payment of the debt is required no later than March 2006 through future royalties from the Japanese licensee, and the Company believes it is a remote possibility that there will be any principal balance remaining at that date. By designating its future royalty receipts during the term of the loan to service the monthly interest and principal payments, the Company has hedged the impact of future exchange rate fluctuations. Upon the later of February 28, 2000, or the date which is one year following the final repayment of the loan, royalty payments from the area licensee in Japan will be substantially reduced in accordance with the terms of the license agreement.

Cityplace Debt

Cityplace Center East Corporation (“CCEC”), a subsidiary of the Company, issued \$290 million of notes in March 1987 to finance the construction of the headquarters tower, a parking garage and related facilities of the Cityplace Center development. The interest rate on these notes was 7%, payable semiannually on February 15 and August 15, and the principal amount was due on February 15, 1995. Because of the application of purchase accounting in 1987, the effective interest rate was 9.0%. The principal amount was paid to noteholders on February 15, 1995, by drawings under letters of credit issued by The Sanwa Bank, Limited, Dallas Agency (“Sanwa”), which has a lien on the property financed. At that time, the Company deferred the maturity of the debt by exercising its option of extending the term of maturity ten years to March 1, 2005, with monthly payments of principal and interest to Sanwa based on a 25-year amortization at 7%, with the remaining principal due upon maturity (the “Cityplace Term Loan”).

The Company is occupying part of the building as its corporate headquarters and the balance is subleased. As additional consideration through the extended term of the debt, CCEC will pay to Sanwa an amount that it receives from the Company which is equal to the net sublease income that the Company receives on the property and 60% of the proceeds, less \$275 million and permitted costs, upon a sale or refinancing of the building.

Southland Canada Debt

During 1988, Southland Canada, Inc. entered into a revolving credit facility with a Canadian chartered bank. The facility currently provides bank financing of up to Canadian \$14,287,000 (approximately U.S. \$10,185,000 at December 31, 1994), which will be reduced to Canadian \$10,716,000 on June 30, 1995, and will be further reduced each year thereafter until June 30, 1998, when the facility will expire, and all amounts outstanding will be due and payable in full. At December 31, 1994, the Company had borrowings outstanding under this facility of Canadian

\$7,964,000 (approximately U.S. \$5,678,000). Interest on such facility is generally payable monthly and is based upon the Canadian Prime rate (8.0% at December 31, 1994) plus .75% per year or a bankers' acceptance rate plus 1.5% per year. The weighted-average interest rate on revolving credit facility borrowings outstanding at December 31, 1994 and 1993, respectively, was 7.3% and 5.4%.

Maturities

Long-term debt maturities assume the continuance of the commercial paper program. The maturities, which include capital lease obligations and sinking fund requirements, as well as SFAS No. 15 Interest accounted for in the recorded amount of the Debentures, are as follows (dollars in thousands):

1995	\$ 123,989
1996	182,170
1997	186,660
1998	189,243
1999	190,281
Thereafter	1,478,855
	<hr/>
	\$ 2,351,198

10. PREFERRED STOCK

The Company has 5,000,000 shares of preferred stock authorized for issuance. Any preferred stock issued will have such rights, powers and preferences as determined by the Company's Board of Directors.

11. REDEEMABLE COMMON STOCK PURCHASE WARRANTS

In 1987, the Company issued 26,135,682 redeemable common stock purchase warrants (the “Warrants”). The Warrants were recorded at \$1.00 per Warrant, which was the amount of proceeds allocated to the Warrants at the time of issuance. The Warrants were governed by a warrant agreement and were exercisable through December 15, 1992, only upon the occurrence of certain specified events. None of the specified events occurred on or before December 15,

1992, and all of the warrants expired on December 16, 1992. Under the provisions of the warrant agreement, the Company was obligated to repurchase the Warrants by March 15, 1995, at the fair market value of the Warrants as separate securities, as determined by an independent financial expert. A fair market value of \$0 for the Warrants was determined by an independent financial expert in December 1992. The \$26,135,682 difference between the carrying amount of the Warrants and their fair value was recorded as an increase in additional capital in 1992.

12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair-value amounts have been determined by the Company using available market information and appropriate valuation methodologies.

The carrying amounts of cash and cash equivalents, trade accounts receivable, trade accounts payable and accrued expenses and other liabilities are reasonable estimates of their fair values. Letters of credit are included in the estimated fair value of accrued expenses and other liabilities. The carrying amounts and estimated fair values of other financial instruments at December 31, 1994, are listed in the following table:

(Dollars in Thousands)	Carrying Amount	Estimated Fair Value
Bank Debt	\$ 350,000	\$ 350,000
Commercial Paper	391,322	391,322
Debentures	995,729	452,368
Yen Loan	253,114	325,389

The methods and assumptions used in estimating the fair value for each of the classes of financial instruments presented in the table above are as follows:

- The carrying amount of the Bank Debt approximates fair value because the interest rates are variable.
- Commercial paper borrowings are sold at market interest rates and have an average remaining maturity of less than 20 days. Therefore, the carrying amount of commercial paper is a reasonable estimate of its fair value. The

guarantee of the commercial paper by IY is an integral part of the estimated fair value of the commercial paper borrowings.

- The fair value of the Debentures is estimated based on December 31, 1994, bid prices obtained from investment banking firms where traders regularly make a market for these financial instruments. The carrying amount of the Debentures includes \$298,190,000 of SFAS No. 15 Interest.
- The fair value of the Yen Loan is estimated by calculating the present value of the future yen cash flows at current interest and exchange rates.

In February 1995, the original Cityplace notes were repaid with proceeds from the Cityplace Term Loan (see Note 9). At the date of issuance, the carrying amount and the fair value of the Cityplace Term Loan was \$290,000,000 and \$269,650,000, respectively. The fair value was estimated by calculating the present value of the future cash flows at current interest rates.

13. EMPLOYEE BENEFIT PLANS

Profit Sharing Plans

The Company maintains profit sharing plans for its U.S. and Canadian employees. In 1949, the Company excluding its Canadian subsidiary ("Southland") adopted The Southland Corporation Employees' Savings and Profit Sharing Plan (the "Savings and Profit Sharing Plan"), and, in 1970, the Company's Canadian subsidiary adopted the Southland Canada, Inc. Profit Sharing Pension Plan. These plans provide retirement benefits to eligible employees.

Contributions to the Savings and Profit Sharing Plan are made by both the participants and Southland. Southland contributes the greater of approximately 10% of its net earnings before contribution to the Savings and Profit Sharing Plan and federal income taxes or an amount determined by Southland's president. The contribution by Southland is generally allocated to the participants on the basis of their individual contribution, years of participation in the Savings and Profit Sharing Plan and age. The provisions of the Southland Canada,

Inc. Profit Sharing Pension Plan are similar to those of the Savings and Profit Sharing Plan. Total contributions to these plans for the years ended December 31, 1994, 1993 and 1992 were \$10,513,000, \$11,956,000 and \$14,647,000 (including amounts allocated to the distribution and food centers), respectively.

Postretirement Benefits

The Company's group insurance plan (the "Insurance Plan") provides postretirement medical and dental benefits for all retirees that meet certain criteria. Such criteria include continuous participation in the Insurance Plan ranging from 10 to 15 years depending on hire date, and the sum of age plus years of continuous service equal to at least 70. The Company contributes toward the cost of the Insurance Plan a fixed dollar amount per retiree based on age and number of dependents covered, as adjusted for actual claims experience. All other future costs and cost increases will be paid by the retirees. The Company continues to fund its cost on a cash basis; therefore, no plan assets have been accumulated.

Net periodic postretirement benefit costs for 1994, 1993 and 1992 include the following components:

<i>(Dollars in Thousands)</i>	1994	1993	1992
Service cost	\$ 752	\$ 824	\$ 862
Interest cost	1,732	2,048	1,998
Amortization of unrecognized gain	(61)	—	(564)
	\$ 2,423	\$ 2,872	\$ 2,296

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 8% and 7% at December 31, 1994 and 1993, respectively.

Components of the accrual recorded in the Company's consolidated balance sheets are as follows:

	December 31	
<i>(Dollars in Thousands)</i>	1994	1993
Accumulated Postretirement Benefit Obligation:		
Retirees		
Active employees eligible to retire	\$ 11,197	\$ 13,380
Other active employees	4,716	5,117
	5,354	6,466
	21,267	24,963
Unrecognized gains	7,953	3,103
	\$ 29,220	\$ 28,066

Postemployment Benefits

As of January 1, 1993, the Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," and recorded an accumulated postemployment benefit obligation of \$16,537,000. The accumulated postemployment benefit obligation, which had no tax effect, was recorded as the cumulative effect of an accounting change. The obligation primarily represents future medical costs relating to short-term and long-term disability. As of December 31, 1994 and 1993, the amount of the obligation was \$18,460,000 and \$16,537,000, respectively.

Equity Participation Plan

During 1988, the Company adopted The Southland Corporation Equity Participation Plan (the "Participation Plan"), which provides for the granting of both incentive options and nonstatutory options and the sale of convertible debentures to certain key employees and officers of the Company. The options were granted at the fair market value on the date of grant, which is the same as the conversion price provided in the debentures.

All options expire, and the debentures mature, no later than December 31, 1997. All options and convertible debentures that were vested became exercisable as of December 31, 1994, pursuant to the terms of the Participation Plan. In the aggregate, not more than 3,529,412 shares of common stock of the Company can be issued pursuant to the Participation Plan; however, the Company has no present intent to grant additional options under this plan. The shares available for issuance under the

Participation Plan are reduced by the number of shares issued under the Grant Stock Plan. At December 31, 1994, there were vested options outstanding to acquire 1,760,803 shares, of which 1,677,128 were at \$7.50 per share and 83,675 were at \$7.70 per share, and vested debentures outstanding that were convertible into 17,833 shares. Of the options and debentures that were vested as of December 31, 1994, 539,803 options to acquire 539,803 shares and debentures convertible into 11,167 shares will expire on March 31, 1995, for those participants who are no longer with the Company.

Grant Stock Plan

During 1988, the Company adopted The Southland Corporation Grant Stock Plan (the "Stock Plan"). Under the provisions of the Stock Plan, up to 750,000 shares of common stock are authorized to be issued to certain key employees and officers of the Company. The stock was fully vested upon the date of issuance. As of December 31, 1994, 480,844 shares had been issued pursuant to the Stock Plan. No shares have been issued since 1988, and the Company has no present intent to grant additional shares.

14. LEASES, COMMITMENTS AND CONTINGENCIES

LEASES

Certain property, plant and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms from 14 to 20 years with options to renew for additional periods, and equipment leases are for terms from one to ten years. The leases do not contain restrictions that have a material effect on the Company's operations.

The composition of capital leases reflected as property, plant and equipment in the consolidated balance sheets is as follows:

<i>(Dollars in Thousands)</i>	December 31	
	1994	1993
Buildings	\$ 125,600	\$ 143,273
Equipment	225	226
	125,825	143,499
Accumulated amortization	(78,103)	(80,467)
	\$ 47,722	\$ 63,032

The present value of future minimum lease payments for capital lease obligations is reflected in the consolidated balance sheets as long-term debt. The amount representing imputed interest necessary to reduce net minimum lease payments to present value has been calculated generally at the Company's incremental borrowing rate at the inception of each lease.

Future minimum lease payments for years ending December 31 are as follows:

<i>(Dollars in Thousands)</i>	Capital Leases	Operating Leases
1995	\$ 23,937	\$ 113,417
1996	22,629	104,700
1997	21,002	93,494
1998	19,317	78,021
1999	17,904	58,684
Thereafter	77,142	231,187
Future minimum lease payments	181,931	\$ 679,503
Estimated executory costs	(519)	
Amount representing imputed interest	(76,253)	
Present value of future minimum lease payments	\$ 105,159	

Minimum noncancelable sublease rental income to be received in the future, which is not included above as an offset to future payments, totals \$26,053,000 for capital leases and \$26,051,000 for operating leases.

Rent expense on operating leases for the years ended December 31, 1994, 1993 and 1992, totaled \$120,850,000, \$124,402,000 and \$135,657,000, respectively, including contingent rent expense of \$8,576,000, \$8,214,000 and \$9,037,000, but reduced by sublease rent income of \$7,858,000, \$8,545,000 and \$8,252,000. Contingent rent expense on capital leases for the years ended December 31, 1994, 1993 and 1992, was \$2,822,000, \$3,084,000 and \$3,964,000, respectively. Contingent rent expense is generally based on sales levels or changes in the Consumer Price Index.

Leases With The Savings and Profit Sharing Plan

At December 31, 1994, the Savings and Profit Sharing Plan owned 253 stores leased to the Company under capital leases and 647 stores leased to the Company under operating leases at rentals which, in the opinion of management, approximated market rates at the date of lease. In addition, 43, 62 and 31 properties were sold by the Savings and Profit Sharing Plan to third parties in 1994, 1993 and 1992, respectively, and at the same time, the related leases with the Company were either cancelled or assigned to the new owner. Included in the consolidated financial statements are the following amounts related to leases with the Savings and Profit Sharing Plan:

(Dollars in Thousands)	December 31	
	1994	1993
Buildings (net of accumulated amortization of \$9,619 and \$9,973)	\$ 3,191	\$ 4,884
Capital lease obligations (net of current portion of \$1,945 and \$2,307)	\$ 4,109	\$ 6,583

(Dollars in Thousands)	Years Ended December 31		
	1994	1993	1992
Rent expense under operating leases and amortization of capital lease assets	\$ 28,195	\$ 30,028	\$ 31,291
Imputed interest expense on capital lease obligations	\$ 696	\$ 948	\$ 1,213
Capital lease principal payments included in principal payments under long-term debt agreements	\$ 2,075	\$ 2,200	\$ 2,302

COMMITMENTS

McLane

In connection with the 1992 sale of assets to McLane, the Company and McLane entered into a ten-year service agreement under which McLane is making its distribution services available to 7-Eleven stores in the United States. If the Company does not fulfill its obligation to McLane during this time period, the Company must reimburse McLane on a pro-rata basis for the transitional payment received at the time of the transaction. The original payment received of \$9,450,000 in 1992 is being amortized to income over the life of the agreement. The Company has exceeded the minimum annual purchases each year and expects to exceed the minimum required purchase levels in future years.

Citgo Petroleum Corporation

In 1986, the Company entered into a 20-year product purchase agreement with Citgo to buy specified quantities of gasoline at market prices. These prices are determined pursuant to a formula based on the prices posted by gasoline wholesalers in the various market areas where the Company purchases gasoline from Citgo. Minimum required annual purchases under this agreement are generally the lesser of 750 million gallons or 35% of gasoline purchased by the Company for retail sale. The Company has exceeded the minimum required annual purchases each year and expects to exceed the minimum required annual purchase levels in future years.

CONTINGENCIES

Gasoline Store Sites

The Company accrues future costs, as well as records the related probable state reimbursement amounts, for remediation of gasoline store sites where releases of regulated substances have been detected. At December 31, 1994 and 1993, respectively, the Company's estimated liability for sites where releases have been detected was \$63,424,000 and \$59,153,000, of which \$32,924,000 and \$35,333,000 is included in deferred credits and other liabilities and the remainder in accrued expenses and other liabilities. The Company has recorded receivables of \$57,246,000 and \$57,532,000 (net of allowances of \$18,890,000 and

\$12,529,000) for the estimated probable state reimbursements, of which \$47,746,000 and \$52,238,000 is included in other assets and the remainder in accounts and notes receivable. The Company reduced the estimated net environmental cost reimbursements at the end of 1994 by approximately \$6,000,000 as a result of completing a review of state reimbursement programs. The estimated future remediation expenditures and related state reimbursement amounts could change as governmental requirements and state reimbursement programs change in future years.

The Company anticipates that substantially all of the future remediation costs for sites with detected releases of regulated substances at December 31, 1994, will be incurred within the next five years. There is no assurance of the timing of the receipt of state reimbursement funds. However, based on the Company's experience, the Company expects to receive state reimbursement funds within one to four years after payment of eligible remediation expenses, assuming that the state administrative procedures for processing such reimbursements have been fully developed.

Chemical Manufacturing Facility

In December 1988, the Company closed its chemical manufacturing facility in New Jersey. As a result, the Company is required to conduct environmental remediation at the facility and has accrued a liability for this purpose. As required, the Company has submitted a clean-up plan to the New Jersey Department of Environmental Protection (the "State"), which provides for remediation of the site for approximately a three-to-five-year period as well as continued groundwater treatment for a projected 20-year period. While the Company has received initial comments from the State, the clean-up plan has not been finalized. The Company has recorded liabilities representing its best estimates of the clean-up costs of \$39,254,000 and \$38,879,000 at December 31, 1994 and 1993, respectively. Of this amount, \$34,180,000 and \$33,795,000 are included in deferred credits and other liabilities and the remainder in accrued expenses and other liabilities for the respective years.

The closed chemical manufacturing facility was previously owned by a large chemical company. In 1991, the Company and the former owner executed a final settlement agreement pursuant to which the former owner agreed to pay a substantial portion of the clean-up costs. The Company

has recorded receivables of \$23,009,000 and \$22,800,000 at December 31, 1994 and 1993, respectively, representing the former owner's portion of the clean-up costs. Of this amount, \$19,800,000 is included in other assets and the remainder in accounts and notes receivable for both 1994 and 1993.

15. INCOME TAXES

As of January 1, 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes." There was no cumulative effect adjustment upon adoption, and there was no effect on net earnings for the year ended December 31, 1993. As permitted, the Company has not restated the financial statements of prior years. Prior to January 1, 1993, income taxes were recorded using the deferred method specified by Accounting Principles Board Opinion No. 11, "Accounting for Income Taxes."

SFAS No. 109 requires the use of the liability method, in which deferred tax assets and liabilities are recognized for differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets include tax carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The components of earnings (loss) before income taxes, extraordinary gain and cumulative effect of accounting change are as follows:

<i>(Dollars in Thousands)</i>	Years Ended December 31		
	1994	1993	1992
Domestic	\$ 70,615	\$ 3,795	\$ (113,940)
Foreign	2,881	(6,375)	(6,009)
	\$ 73,496	\$ (2,580)	\$ (119,949)

The provision for income taxes in the accompanying Consolidated Statements of Operations consists of the following:

(Dollars in Thousands)	Years Ended December 31		
	1994	1993	1992
Current:			
Federal	\$ 6,799	\$ 2,759	\$ 4,560
Foreign	8,515	5,941	5,411
State	350	—	1,529
	15,664	8,700	11,500
Tax benefit of operating loss carryforward	(4,164)	—	—
Reduction in valuation allowance	(30,000)	—	—
	\$ (18,500)	\$ 8,700	\$ 11,500

Reconciliations of income taxes at the federal statutory rate to the Company's actual income taxes provided are as follows:

(Dollars in Thousands)	Years Ended December 31		
	1994	1993	1992
Taxes (benefit) at federal statutory rate	\$ 25,724	\$ (903)	\$ (40,783)
State income taxes, net of federal income tax benefit	228	—	1,009
Foreign tax rate difference	1,212	2,232	2,354
Loss providing no current benefit	—	—	5,061
Amortization of cost in excess of tax basis	—	—	23,286
Difference in LIFO as a result of purchase accounting	—	—	8,671
Net change in valuation allowance excluding the tax effect of extraordinary items and the cumulative effect of accounting changes (excluding \$5,865 of tax credits and other items providing no benefit in 1994)	(47,943)	4,112	—
Other	2,279	3,259	11,902
	\$ (18,500)	\$ 8,700	\$ 11,500

At December 31, 1994, the Company had approximately \$20,000,000 of general business credit carryforwards, \$10,800,000 of foreign tax credit carryforwards and

\$17,900,000 of alternative minimum tax ("AMT") credit carryforwards. The AMT credits have no expiration date. The general business credits expire during the period from 2001 to 2009, and the foreign tax credits expire during the period 1998 to 1999.

The valuation allowance for deferred tax assets decreased by \$42,078,000 in 1994 due to changes in the Company's gross deferred tax assets and liabilities and the realization of a portion of the Company's net deferred tax asset. Based on a one-year projection of taxable income, the Company has recognized a portion of its net deferred tax asset through a \$30 million reduction in the valuation allowance with \$13,861,000 recorded in other current assets and the remainder in other assets. Taxable income for 1995 was projected by utilizing steady state assumptions defined as only inflationary increases in sales and no increase in gross profit margins. If the Company's current trend of profitability continues, then additional deferred tax assets of up to approximately \$175 million could be recognized in future periods. In 1993, the valuation allowance decreased by \$21,817,000 due to changes in the Company's gross deferred tax assets and liabilities.

Significant components of the Company's deferred tax assets and liabilities at December 31, 1994 and 1993, are as follows:

(Dollars in Thousands)	Years Ended December 31	
	1994	1993
Deferred tax assets:		
SFAS No. 15 interest	\$ 125,694	\$ 139,831
Accrued insurance	58,514	58,312
Tax credit carryforwards	48,765	43,562
Accrued liabilities	43,890	57,974
Compensation and benefits	34,029	33,535
Debt issuance costs	15,445	21,658
Other	5,537	4,055
Subtotal	331,874	358,927
Deferred tax liabilities:		
Area license agreements	(92,515)	(99,932)
Property, plant and equipment	(29,192)	(36,751)
Other	(5,578)	(5,577)
Subtotal	(127,285)	(142,260)
Valuation allowance	(174,589)	(216,667)
Net deferred taxes	\$ 30,000	\$ 0

16. EARNINGS (LOSS) PER COMMON SHARE

Primary earnings (loss) per common share is based on net earnings (loss) divided by the weighted average number of shares outstanding during each year. The exercise of outstanding stock options would not result in a dilution of earnings per share.

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1994 and 1993 is as follows:

Year Ended December 31, 1994:

(Dollars in Millions, Except Per-Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	\$ 1,512	\$ 1,720	\$ 1,811	\$ 1,641	\$ 6,684
Gross profit	328	396	420	396	1,540
Income taxes (benefit)	1	6	6	(32)	(19)
Net earnings (loss)	(8)	32	43	25	92
Primary and fully diluted earnings (loss) per common share	(.02)	.08	.10	.06	.22

The second quarter includes a \$4,500,000 recovery on a 1992 insurance claim. The fourth quarter includes \$30 million of realized deferred tax benefit (see Note 15), \$7,405,000 of expenses accrued for severance and related costs (see Note 8), \$7,696,000 of expense related to store closings and dispositions of properties, and approximately \$6,000,000 in expense relating to the reduction of estimated net environmental cost reimbursements (see Note 14).

Year Ended December 31, 1993:

(Dollars in Millions, Except Per-Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	\$ 1,582	\$ 1,773	\$ 1,780	\$ 1,609	\$ 6,744
Gross profit	350	418	434	371	1,573
Income taxes	2	2	2	3	9
Earnings (loss) before extraordinary gain and cumulative effect of accounting change	(16)	19	22	(36)	(11)
Net earnings (loss)	(33)	19	121	(36)	71
Primary and fully diluted earnings (loss) per common share before extra- ordinary gain and cumulative effect of accounting change	(.04)	.05	.05	(.09)	(.03)

The first quarter includes \$16,537,000 of expense resulting from the cumulative effect of an accounting change for postemployment benefits (see Note 13). The third quarter includes a \$98,968,000 extraordinary gain on redemption of debt related to the Refinancing (see Note 9) and a \$10,300,000 loss on disposition of the Company's aviation facility (which was subsequently adjusted to a total loss of \$10,814,000 in the fourth quarter). The fourth quarter includes a loss of \$42,791,000 related to store closings and dispositions of properties, a LIFO credit of \$9,051,000 primarily due to lower cigarette and gasoline prices, and \$5,989,000 of expense resulting from a cost-cutting program associated with the Company's 1993 reorganization.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
The Southland Corporation
Dallas, Texas

We have audited the accompanying consolidated balance sheets of The Southland Corporation and Subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Southland Corporation and Subsidiaries as of December 31, 1994 and 1993, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As discussed in Notes 13 and 15 to the financial statements, in 1993 the Company changed its method of accounting for postemployment benefits and for income taxes to conform with Statements of Financial Accounting Standards No. 112 and No. 109, respectively.

Coopers & Lybrand L. L. P.

Dallas, Texas
February 23, 1995

D I R E C T O R S

MASATOSHI ITO

Chairman;
Founder, Director and Advisor of
Ito-Yokado Group

TOSHIFUMI SUZUKI (1)

Vice Chairman;
President and Chief Executive Officer,
Ito-Yokado Co., Ltd;
Chairman and Chief Executive Officer,
Seven-Eleven Japan Co., Ltd.

JOHN P. THOMPSON

Co-Vice Chairman;
formerly Chairman,
The Southland Corporation

JERE W. THOMPSON

Co-Vice Chairman;
formerly President and
Chief Executive Officer,
The Southland Corporation

CLARK J. MATTHEWS, II

President and
Chief Executive Officer,
The Southland Corporation

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Chairman,
Systems International Incorporated

TIMOTHY ASHIDA (1)

President,
A.K.K. Associates, Inc.

JAY W. CHAI (2)

Chairman and
Chief Executive Officer,
ITOCHU International, Inc.

GARY J. FERNANDES (1) (2)

Senior Vice President and
Director, Electronic Data
Systems Corporation

MASAAKI KAMATA

Executive Vice President,
Seven-Eleven Japan Co., Ltd.

KAZUO OTSUKA (1)

General Manager,
Corporate Development,
Ito-Yokado Co., Ltd.

ASHER O. PACHOLDER (2)

Chairman of the Board
and Chief Financial Officer,
ICO, Inc.

NOBUTAKE SATO

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Corporate Planning,
Ito-Yokado Co., Ltd.

TATSUHIRO SEKINE (2)

Senior Managing Director,
Finance,
Ito-Yokado Co., Ltd.

(1) Compensation and Benefits Committee

O F F I C E R S

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TOSHIFUMI SUZUKI

Vice Chairman of the Board

CLARK J. MATTHEWS, II

President and
Chief Executive Officer

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Executive Vice President
and Chief Operating Officer

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International and Real Estate

VERNON P. LOTMAN

Vice President and
Controller

BRYAN E. SMITH, JR.

Vice President and
General Counsel

DAVID A. URBEL

Vice President, Planning
and Treasurer

*Resigned as of February 28, 1995

CORPORATE HEADQUARTERS

The Southland Corporation
2711 North Haskell Ave.
Dallas, TX 75204-2906
(214) 828-7011

Mailing Address:
P.O. Box 711
Dallas, TX 75221-0711

FORM 10-K AND OTHER INVESTOR INFORMATION

Requests for the Form 10-K for the year ended December 31, 1994, and quarterly financial information should be addressed to the Investor Relations Manager at the above address, or telephone (214) 828-7328.

Annual reports are mailed to all shareholders. Investors may receive quarterly information regularly by requesting to be put on the company's mailing list.

A recorded company update can be reached and requests for information can be left 24 hours a day by calling (214) 828-7587.

ANNUAL MEETING

The annual meeting will be held at 9:30 a.m. CDT on Wednesday, April 26, 1995, in the Cityplace Conference Center at the company's headquarters. All shareholders and bondholders are cordially invited to attend.

AUDITORS

Coopers & Lybrand L.L.P.
Dallas, Texas

COMMON STOCK

Southland's common stock is traded on the NASDAQ Small-Cap Market under the ticker symbol SLCMC. The stock is listed as "SouldCp h" in the NASDAQ Small-Cap chart of most major daily newspapers. There were 3,060 shareholders of record as of March 3, 1995.

The Company has paid no dividends on its common equity as such payments are restricted by the indentures governing its outstanding securities and Southland's senior credit agreement.

The tables below set forth the high, low and closing bid prices for the periods indicated as provided by NASDAQ. These quotations reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

QUARTERS	PRICE RANGE (BID)		
	HIGH	LOW	CLOSE
1994			
FIRST	\$ 6 1/8	\$ 3 13/16	\$ 3 3/8
SECOND	6 3/8	3 7/8	6 1/8
THIRD	6 1/2	4 1/2	5 1/8
FOURTH	5 3/4	4 1/4	4 1/4
1993			
FIRST	\$ 3 1/2	\$ 2 31/2	\$ 3 1/2
SECOND	5 1/2	3 1/2	4 1/8
THIRD	6 1/8	4 1/4	5 1/4
FOURTH	7 1/8	5 1/8	6 1/8

COMMON STOCK TRANSFER AGENT/REGISTRAR

Society National Bank
c/o KeyCorp Shareholder Services, Inc.
1201 Elm Street, Suite 5050
Dallas, Texas 75270

OTHER SECURITIES

The following other Southland securities are traded over the counter, and reported bond price information (updated Fridays) is available by calling the company's recorded message at (214) 828-7587:

5% First Priority Senior Subordinated Debentures

Trustee: Society National Bank
Corporate Trust Division
127 Public Square, 15th Floor
Cleveland, OH 44114

4 1/2% Second Priority Senior Subordinated Debentures (Series A)**4% Second Priority Senior Subordinated Debentures (Series B)****12% Second Priority Senior Subordinated Debentures (Series C)**

Trustee: The Riggs National Bank of Washington, D.C.
808 17th Street, Northwest, 11th Floor
Washington, DC 20006

Common Stock Warrants

Warrant Agent: Wilmington Trust Company
Rodney Square North
1100 North Market Street
Wilmington, DE 19890
Attention: Corporate Trust Administration

7-ELEVEN AROUND THE WORLD

UNITED STATES

Franchised	2,962 ⁽¹⁾
Company-operated	2,207

CANADA

Company-operated	461 ⁽¹⁾
	5,630

LICENSED OR OPERATED BY AFFILIATES⁽²⁾

Japan ⁽³⁾	5,809
Taiwan	925
United States	694
Thailand	399
Hong Kong	310
Mexico	213
Australia	153
Malaysia	87
Singapore	84
South Korea	75
Spain	69
Philippines	66
United Kingdom	51
Norway	37
Sweden	22
China	19
Brazil	14
Puerto Rico	13
Turkey	10
Guam	9
Denmark	8
	9,067
	14,697

STATE/ PROVINCE

7-ELEVEN STORES	OTHER RETAIL	TOTAL
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UNITED STATES:

Arizona	97	0	97
California	1,193	3	1,196
Colorado	244	0	244
Connecticut	39	0	39
Delaware	27	0	27
District of Columbia	18	0	18
Florida	447	0	447
Idaho	14	0	14
Illinois	141	10	151
Indiana	16	4	20
Kansas	18	0	18
Maryland	327	19	346
Massachusetts	34	2	36
Michigan	98	0	98
Missouri	87	2	89
Nevada	187	0	187
New Hampshire	8	3	11
New Jersey	203	0	203
New York	222	0	222
North Carolina	7	0	7
Ohio	15	0	15
Oregon	137	0	137
Pennsylvania	169	5	174
Rhode Island	9	0	9
Texas	305	3	308
Utah	118	0	118
Virginia	622	17	639
Washington	253	0	253
West Virginia	25	4	29
Wisconsin	0	17	17

CANADA:

Alberta	122	0	122
Manitoba	52	0	52
Ontario	114	0	114
British Columbia	136	0	136
Saskatchewan	37	0	37
TOTAL	5,541	89	5,630

All numbers as of December 31, 1994

(1) The number of franchised stores includes 5 locations in New York in which Southland has no real estate interest. The number of company-operated stores in Canada includes 17 locations in which Southland has no real estate interest.

(2) Sales from stores operated by licensees or affiliates are not included in Southland's "Net Sales." Royalties from licensees and equity in affiliates are included in "Other Income."

(3) The 7-Eleven licensee in Japan, Seven-Eleven Japan Co., Ltd., and its parent company, Ito-Yokado Co., Ltd., jointly own IYG Holding Company, which owns approximately 64% of Southland's common stock.



THE SOUTHLAND CORPORATION

2711 North Haskell Avenue
Dallas, Texas 75204-2906
Phone: (214) 828-7011



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